



ANNUAL STATEMENT

For the Year Ended December 31, 2007
of the Condition and Affairs of the

Blue Care Network of Michigan

NAIC Group Code.....572, 572 (Current Period) (Prior Period)	NAIC Company Code..... 95610	Employer's ID Number..... 38-2359234
Organized under the Laws of Michigan	State of Domicile or Port of Entry Michigan	Country of Domicile US
Licensed as Business Type.....Health Maintenance Organization	Is HMO Federally Qualified? Yes [X] No []	
Incorporated/Organized..... May 6, 1981	Commenced Business..... May 13, 1981	
Statutory Home Office	20500 Civic Center Drive..... Southfield MI 48076 (Street and Number) (City or Town, State and Zip Code)	
Main Administrative Office	20500 Civic Center Drive..... Southfield MI 48076 (Street and Number) (City or Town, State and Zip Code)	248-799-6400 (Area Code) (Telephone Number)
Mail Address	20500 Civic Center Drive MC C455..... Southfield MI 48076 (Street and Number or P. O. Box) (City or Town, State and Zip Code)	
Primary Location of Books and Records	20500 Civic Center Drive..... Southfield MI 48076 (Street and Number) (City or Town, State and Zip Code)	248-455-3410 (Area Code) (Telephone Number)
Internet Website Address	www.mibcn.com	
Statutory Statement Contact	Joseph John Andraska (Name) jandraska@bcbsm.com (E-Mail Address)	248-455-3428 (Area Code) (Telephone Number) (Extension) 248-455-3639 (Fax Number)

OFFICERS

Name	Title	Name	Title
1. Jeanne Helen Carlson	President & Chief Executive Officer	2. Julie Concetta Swantek	Secretary
3. Susan Anne Kluge	Chief Financial Officer & Treasurer	4. David Robert Nelson	Chief Actuarial Officer

OTHER

Douglas Robert Woll MD	Chief Medical Officer	Laurie Lowe Westfall	Chief Operating Officer
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DIRECTORS OR TRUSTEES

Julie Anne Angott	Mark Robert Bartlett	William Harrison Black	Charles Lee Burkett
Jeanne Helen Carlson	James Robert Dietz #	Shauna Ryder Diggs MD	Franklin Delano Garrison
Janet Louise Harden	DeMerritte Bonta Hiscoe MD	Valeriah Ann Holmon	Robert Paul Kelch MD #
Karen Marie Knapp	Donald Glenn Oetman	Calvin Thomas Rapson #	Kevin Lewis Seitz #
Gregory Alan Sudderth	Diana Lynn Watson		

State of..... Michigan
County of..... Oakland

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy of the enclosed statement (except for formatting differences due to electronic filing). The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Jeanne Helen Carlson	(Signature) Julie Concetta Swantek	(Signature) Susan Anne Kluge
1. (Printed Name) President & Chief Executive Officer	2. (Printed Name) Secretary	3. (Printed Name) Chief Financial Officer & Treasurer
(Title)	(Title)	(Title)

Subscribed and sworn to before me

This _____ day of _____

a. Is this an original filing? Yes [X] No []

b. If no

1. State the amendment number _____

2. Date filed _____

3. Number of pages attached _____

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	144,836,970		144,836,970	44,402,562
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	8,370,124	3,874,760	4,495,364	2,105,084
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....(15,042,016), Sch. E-Part 1), cash equivalents (\$.....8,088,225, Sch. E-Part 2) and short-term investments (\$.....522,935,163, Sch. DA).....	515,981,372		515,981,372	525,217,003
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....	70,835,625		70,835,625	67,828,768
8. Receivables for securities.....			0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	740,024,091	3,874,760	736,149,331	639,553,417
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	8,233,717		8,233,717	6,680,380
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	9,633,927	29,051	9,604,876	8,546,613
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	65,993
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....			0	
16.1 Current federal and foreign income tax recoverable and interest thereon.....			0	
16.2 Net deferred tax asset.....			0	
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	10,104,146	7,861,387	2,242,759	2,172,694
19. Furniture and equipment, including health care delivery assets (\$.....1,002,325).....	6,578,111	5,575,786	1,002,325	1,457,130
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	11,493,361	2,003,485	9,489,876	9,099,253
22. Health care (\$.....18,521,644) and other amounts receivable.....	22,222,688	3,701,044	18,521,644	7,825,018
23. Aggregate write-ins for other than invested assets.....	2,865,330	2,807,464	57,866	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	811,155,371	25,852,977	785,302,394	675,400,498
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	811,155,371	25,852,977	785,302,394	675,400,498

DETAILS OF WRITE-INS				
0901.			0	
0902.			0	
0903.			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Due from University of Michigan.....	892,310	892,310	0	
2302. Prepaid expenses.....	1,809,937	1,809,937	0	
2303. Vehicles.....	71,618	71,618	0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	91,465	33,599	57,866	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	2,865,330	2,807,464	57,866	0

Prior year amounts have been changed to reflect merged balances.

Blue Care Network of Michigan
LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....9,520,434 reinsurance ceded).....	281,609,762		281,609,762	256,295,266
2. Accrued medical incentive pool and bonus amounts.....	72,590,359		72,590,359	64,477,403
3. Unpaid claims adjustment expenses.....	10,579,858		10,579,858	6,748,878
4. Aggregate health policy reserves.....	5,717,188		5,717,188	5,004,704
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....			0	
8. Premiums received in advance.....	37,397,515		37,397,515	39,193,435
9. General expenses due or accrued.....	39,807,245		39,807,245	35,419,324
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....			0	
10.2 Net deferred tax liability.....			0	
11. Ceded reinsurance premiums payable.....	2,144,306		2,144,306	
12. Amounts withheld or retained for the account of others.....	2,307,417		2,307,417	2,611,350
13. Remittances and items not allocated.....			0	
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			0	
15. Amounts due to parent, subsidiaries and affiliates.....	22,150,065		22,150,065	13,316,305
16. Payable for securities.....			0	
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
18. Reinsurance in unauthorized companies.....			0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
20. Liability for amounts held under uninsured plans.....	1,053,105		1,053,105	178,146
21. Aggregate write-ins for other liabilities (including \$....2,077,779 current).....	65,835,854	0	65,835,854	57,420,047
22. Total liabilities (Lines 1 to 21).....	541,192,674	0	541,192,674	480,664,858
23. Aggregate write-ins for special surplus funds.....	XXX	XXX	0	0
24. Common capital stock.....	XXX	XXX	10,000	10,000
25. Preferred capital stock.....	XXX	XXX		
26. Gross paid in and contributed surplus.....	XXX	XXX	15,643,045	15,643,045
27. Surplus notes.....	XXX	XXX		
28. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
29. Unassigned funds (surplus).....	XXX	XXX	228,456,675	179,082,595
30. Less treasury stock at cost:				
30.1 ....0.000 shares common (value included in Line 24 \$.....0).....	XXX	XXX		
30.2 ....0.000 shares preferred (value included in Line 25 \$.....0).....	XXX	XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	XXX	XXX	244,109,720	194,735,640
32. Total liabilities, capital and surplus (Lines 22 and 31).....	XXX	XXX	785,302,394	675,400,498

DETAILS OF WRITE-INS

2101. Accrued Post Retirement Benefits.....	48,648,360		48,648,360	44,098,896
2102. Accrued Pension.....	14,701,817		14,701,817	10,996,699
2103. Employee Health Insurance accrued payable.....	2,074,779		2,074,779	2,023,039
2198. Summary of remaining write-ins for Line 21 from overflow page.....	410,898	0	410,898	301,413
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	65,835,854	0	65,835,854	57,420,047
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	XXX	XXX	0	0
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	XXX	XXX	0	0

Prior year amounts have been changed to reflect merged balances.

Blue Care Network of Michigan
STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX	7,564,671	7,625,979
2. Net premium income (including \$.....0 non-health premium income).....	XXX	2,150,301,539	2,031,089,454
3. Change in unearned premium reserves and reserve for rate credits.....	XXX	(712,483)	1,710,440
4. Fee-for-service (net of \$.....9,485,949 medical expenses).....	XXX	(1,720,089)	(2,299,049)
5. Risk revenue.....	XXX	3,930,513	3,745,605
6. Aggregate write-ins for other health care related revenues.....	XXX	57,478	142,150
7. Aggregate write-ins for other non-health revenues.....	XXX	0	0
8. Total revenues (Lines 2 to 7).....	XXX	2,151,856,958	2,034,388,600
Hospital and Medical:			
9. Hospital/medical benefits.....		1,284,097,817	1,198,039,606
10. Other professional services.....		51,006,325	49,918,608
11. Outside referrals.....		60,005,229	62,976,625
12. Emergency room and out-of-area.....		122,467,328	98,261,399
13. Prescription drugs.....		295,827,683	296,339,527
14. Aggregate write-ins for other hospital and medical.....0		2,765,981	2,260,363
15. Incentive pool, withhold adjustments and bonus amounts.....		57,420,241	50,788,366
16. Subtotal (Lines 9 to 15).....	0	1,873,590,604	1,758,584,494
Less:			
17. Net reinsurance recoveries.....		13,034,942	6,372,482
18. Total hospital and medical (Lines 16 minus 17).....	0	1,860,555,662	1,752,212,012
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$.....59,947,043 cost containment expenses.....		88,186,400	78,326,005
21. General administrative expenses.....		186,850,646	196,840,660
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....			
23. Total underwriting deductions (Lines 18 through 22).....	0	2,135,592,708	2,027,378,677
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX	16,264,250	7,009,923
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		33,188,030	38,119,544
26. Net realized capital gains or (losses) less capital gains tax of \$.....0.....		482,137	36,093,252
27. Net investment gains or (losses) (Lines 25 plus 26).....	0	33,670,167	74,212,796
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....91,697) (amount charged off \$.....147,799)].....		(56,102)	(148,005)
29. Aggregate write-ins for other income or expenses.....	0	0	(1,000)
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX	49,878,315	81,073,714
31. Federal and foreign income taxes incurred.....	XXX	31,475	31,541
32. Net income (loss) (Lines 30 minus 31).....	XXX	49,846,840	81,042,173
DETAILS OF WRITE-INS			
0601. Other Revenue.....	XXX	25,506	110,968
0602. Pharmacy Revenue.....	XXX	31,972	31,182
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX	57,478	142,150
0701.	XXX		
0702.	XXX		
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX	0	0
1401. Other Medical Expense.....		1,882,040	1,545,997
1402. Occupancy, Depreciation and Amortization.....		883,941	714,366
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	2,765,981	2,260,363
2901. Regulatory Fee.....			(1,000)
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	0	(1,000)

Prior year amounts have been changed to reflect merged balances.

Blue Care Network of Michigan
STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	194,735,640	380,157,631
34. Net income or (loss) from Line 32.....	49,846,840	81,042,173
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....0.....	3,496,443	(228,130,781)
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....		
39. Change in nonadmitted assets.....	(3,969,203)	(2,354,540)
40. Change in unauthorized reinsurance.....		
41. Change in treasury stock.....		
42. Change in surplus notes.....		(2,831,446)
43. Cumulative effect of changes in accounting principles.....		
44. Capital changes:		
44.1 Paid in.....		
44.2 Transferred from surplus (Stock Dividend).....		
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....		
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....		(33,608,000)
47. Aggregate write-ins for gains or (losses) in surplus.....	0	460,603
48. Net change in capital and surplus (Lines 34 to 47).....	49,374,080	(185,421,991)
49. Capital and surplus end of reporting period (Line 33 plus 48).....	244,109,720	194,735,640

DETAILS OF WRITE-INS		
4701. Prior period Adjustment Premium Bad Debt.....		460,603
4702.		
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	0	460,603

Prior year amounts have been changed to reflect merged balances.

CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	2,149,977,446	2,046,357,254
2. Net investment income.....	31,576,058	38,661,320
3. Miscellaneous income.....	2,267,902	1,588,706
4. Total (Lines 1 through 3).....	2,183,821,406	2,086,607,280
5. Benefit and loss related payments.....	1,827,128,210	1,723,305,495
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	257,583,481	268,774,184
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	31,475	31,541
10. Total (Lines 5 through 9).....	2,084,743,166	1,992,111,220
11. Net cash from operations (Line 4 minus Line 10).....	99,078,240	94,496,060
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	229,222,791	612,165,994
12.2 Stocks.....	1,628,948	88,714,302
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....	3,700,106	
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	18,226	(662,349)
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	234,570,071	700,217,947
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	329,187,627	495,227,523
13.2 Stocks.....	9,479,481	235,200,519
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....	1,500,000	
13.6 Miscellaneous applications.....		300,000
13.7 Total investments acquired (Lines 13.1 to 13.6).....	340,167,108	730,728,042
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14).....	(105,597,037)	(30,510,095)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		(2,831,446)
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		33,608,000
16.6 Other cash provided (applied).....	(2,716,835)	(746,848)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	(2,716,835)	(37,186,294)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(9,235,632)	26,799,671
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	525,217,003	498,417,332
19.2 End of year (Line 18 plus Line 19.1).....	515,981,372	525,217,003

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
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Prior year amounts have been changed to reflect merged balances.

ANALYSIS OF OPERATION BY LINES OF BUSINESS

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plans	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Net premium income.....	2,150,301,539	1,898,682,453	89,440,017			70,733,180	91,445,889			
2. Change in unearned premium reserves and reserve for rate credit.....	(712,483)	232,555	(1,722,326)			864,178	(86,890)			
3. Fee-for-service (net of \$....9,485,949 medical expenses).....	(1,720,089)								(1,720,089)	XXX
4. Risk revenue.....	3,930,513	3,930,513								XXX
5. Aggregate write-ins for other health care related revenues.....	57,478	0	0	0	0	0	0	0	57,478	XXX
6. Aggregate write-ins for other non-health care related revenues.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6).....	2,151,856,958	1,902,845,521	87,717,691	0	0	71,597,358	91,358,999	0	(1,662,611)	0
8. Hospital/medical benefits.....	1,284,097,817	1,153,291,934	27,224,102			45,300,565	58,281,216			XXX
9. Other professional services.....	51,006,325	45,007,551	2,038,652			1,767,868	2,192,254			XXX
10. Outside referrals.....	60,005,229	52,480,665	1,898,943			2,061,407	3,564,214			XXX
11. Emergency room and out-of-area.....	122,467,328	114,886,032	857,358			3,776,621	2,947,317			XXX
12. Prescription drugs.....	295,827,683	233,236,398	42,594,871			9,161,376	10,835,038			XXX
13. Aggregate write-ins for other hospital and medical.....	2,765,981	1,855,642	646,629	0	0	72,888	151,786	0	39,036	XXX
14. Incentive pool, withhold adjustments and bonus amounts.....	57,420,241	54,957,537				2,158,697	304,007			XXX
15. Subtotal (Lines 8 to 14).....	1,873,590,604	1,655,715,759	75,260,555	0	0	64,299,422	78,275,832	0	39,036	XXX
16. Net reinsurance recoveries.....	13,034,942	11,537,427				434,222	1,063,293			XXX
17. Total hospital and medical (Lines 15 minus 16).....	1,860,555,662	1,644,178,332	75,260,555	0	0	63,865,200	77,212,539	0	39,036	XXX
18. Non-health claims (net).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses including \$....59,947,043 cost containment expenses.....	88,186,400	77,655,595	3,861,168			3,238,234	3,431,403			
20. General administrative expenses.....	186,850,646	161,546,247	7,608,924			6,090,996	10,942,234		662,245	
21. Increase in reserves for accident and health contracts.....	0									XXX
22. Increase in reserve for life contracts.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22).....	2,135,592,708	1,883,380,174	86,730,647	0	0	73,194,430	91,586,176	0	701,281	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23).....	16,264,250	19,465,347	987,044	0	0	(1,597,072)	(227,177)	0	(2,363,892)	0

DETAILS OF WRITE-INS

0501. Other Revenue.....	25,506								25,506	XXX
0502. Pharmacy Revenue.....	31,972								31,972	XXX
0503.	0									XXX
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	XXX
0599. Total (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	57,478	0	0	0	0	0	0	0	57,478	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Total (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301. Other Medical.....	1,882,040	1,253,029	436,791			49,595	103,589		39,036	XXX
1302. Occupancy and Depreciation	883,941	602,613	209,838			23,293	48,197			XXX
1303.	0									XXX
1398. Summary of remaining write-ins for Line 13 from overflow page.....	0	0	0	0	0	0	0	0	0	XXX
1399. Total (Lines 1301 thru 1303 plus 1398) (Line 13 above).....	2,765,981	1,855,642	646,629	0	0	72,888	151,786	0	39,036	XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1.	Comprehensive (hospital and medical).....	1,910,352,460		11,670,007	1,898,682,453
2.	Medicare supplement.....	89,440,017			89,440,017
3.	Dental only.....				0
4.	Vision only.....				0
5.	Federal employees health benefits plan.....	71,172,391		439,211	70,733,180
6.	Title XVIII - Medicare.....	91,700,331		254,442	91,445,889
7.	Title XIX - Medicaid.....				0
8.	Other health.....				0
9.	Health subtotal (Lines 1 through 8).....	2,162,665,199	0	12,363,660	2,150,301,539
10.	Life.....				0
11.	Property/casualty.....				0
12.	Totals (Lines 9 to 11).....	2,162,665,199	0	12,363,660	2,150,301,539

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct.....	1,789,960,189	1,578,393,992	77,924,768			65,436,628	68,165,765		39,036	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	11,437,952	11,241,333				83,703	112,916			
1.4 Net.....	1,778,522,237	1,567,152,659	77,924,768	0	0	65,352,925	68,052,849	0	39,036	0
2. Paid medical incentive pools and bonuses.....	49,307,284	47,453,591				1,853,693				
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	291,130,197	257,123,034	9,549,326			7,904,741	16,553,096			
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	9,520,435	8,168,096				350,519	1,001,820			
3.4 Net.....	281,609,762	248,954,938	9,549,326	0	0	7,554,222	15,551,276	0	0	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	0									
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	72,590,359	69,698,769				2,121,037	770,553			
6. Net healthcare receivables (a).....	767,304	767,304								
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	264,152,719	233,991,500	12,213,540			11,200,644	6,747,035			
8.2 Reinsurance assumed.....	0									
8.3 Reinsurance ceded.....	7,857,452	7,806,009					51,443			
8.4 Net.....	256,295,267	226,185,491	12,213,540	0	0	11,200,644	6,695,592	0	0	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	0									
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	64,477,402	62,194,823				1,816,033	466,546			
11. Amounts recoverable from reinsurers December 31, prior year.....	65,993	65,993								
12. Incurred benefits:										
12.1 Direct.....	1,816,170,363	1,600,758,222	75,260,554	0	0	62,140,725	77,971,826	0	39,036	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	13,034,942	11,537,427	0	0	0	434,222	1,063,293	0	0	0
12.4 Net.....	1,803,135,421	1,589,220,795	75,260,554	0	0	61,706,503	76,908,533	0	39,036	0
13. Incurred medical incentive pools and bonuses.....	57,420,241	54,957,537	0	0	0	2,158,697	304,007	0	0	0

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in process of adjustment:										
1.1 Direct.....	82,333,082	72,497,840	5,751,523			3,679,791	403,928			
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	82,333,082	72,497,840	5,751,523	0	0	3,679,791	403,928	0	0	0
2. Incurred but unreported:										
2.1 Direct.....	198,177,366	174,005,445	3,797,803			4,224,950	16,149,168			
2.2 Reinsurance assumed.....	0									
2.3 Reinsurance ceded.....	9,520,435	8,168,096				350,519	1,001,820			
2.4 Net.....	188,656,931	165,837,349	3,797,803	0	0	3,874,431	15,147,348	0	0	0
3. Amounts withheld from paid claims and capitations:										
3.1 Direct.....	10,619,749	10,619,749								
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	10,619,749	10,619,749	0	0	0	0	0	0	0	0
4. Totals:										
4.1 Direct.....	291,130,197	257,123,034	9,549,326	0	0	7,904,741	16,553,096	0	0	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	9,520,435	8,168,096	0	0	0	350,519	1,001,820	0	0	0
4.4 Net.....	281,609,762	248,954,938	9,549,326	0	0	7,554,222	15,551,276	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical).....	192,603,550	1,374,615,103	5,334,930	243,620,008	197,938,480	226,185,492
2. Medicare supplement.....	11,492,641	66,432,128	131,524	9,417,802	11,624,165	12,213,540
3. Dental only.....					0	
4. Vision only.....					0	
5. Federal employees health benefits plan.....	7,735,542	57,617,383	260,640	7,293,582	7,996,182	11,200,644
6. Title XVIII - Medicare.....	6,189,944	61,862,904	285,280	15,265,996	6,475,224	6,695,592
7. Title XIX - Medicaid.....					0	
8. Other health.....		39,036			0	
9. Health subtotal (Lines 1 to 8).....	218,021,677	1,560,566,554	6,012,374	275,597,388	224,034,051	256,295,268
10. Healthcare receivables (a).....		11,703,292			0	10,935,988
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....	42,928,582	6,378,702	12,766,783	59,823,576	55,695,365	64,477,402
13. Totals (Lines 9 - 10 + 11 + 12).....	260,950,259	1,555,241,964	18,779,157	335,420,964	279,729,416	309,836,682

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....233,524	.....237,378	.....238,216	.....238,212	.....238,158
2. 2003.....	.....1,253,614	.....1,488,097	.....1,490,281	.....1,490,562	.....1,490,540
3. 2004.....	.....XXX	.....1,254,913	.....1,477,442	.....1,482,943	.....1,483,133
4. 2005.....	.....XXX	.....XXX	.....1,347,415	.....1,579,456	.....1,580,790
5. 2006.....	.....XXX	.....XXX	.....XXX	.....1,477,904	.....1,737,407
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,555,242

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....249,361	.....238,038	.....238,231	.....238,212	.....238,158
2. 2003.....	.....1,552,485	.....1,505,978	.....1,490,620	.....1,490,625	.....1,490,540
3. 2004.....	.....XXX	.....1,551,598	.....1,499,704	.....1,484,043	.....1,483,382
4. 2005.....	.....XXX	.....XXX	.....1,617,507	.....1,596,073	.....1,583,045
5. 2006.....	.....XXX	.....XXX	.....XXX	.....1,745,457	.....1,754,062
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,890,284

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....	.....1,817,531	.....1,490,540	.....67,664	.....4.5	.....1,558,204	.....85.7			.....1,558,204	.....85.7
2. 2004.....	.....1,837,586	.....1,483,133	.....85,053	.....5.7	.....1,568,186	.....85.3	.....250		.....1,568,436	.....85.4
3. 2005.....	.....1,900,142	.....1,580,790	.....71,413	.....4.5	.....1,652,203	.....87.0	.....2,255	.....2	.....1,654,460	.....87.1
4. 2006.....	.....2,032,800	.....1,737,407	.....78,604	.....4.5	.....1,816,011	.....89.3	.....16,654	.....1,627	.....1,834,292	.....90.2
5. 2007.....	.....2,149,589	.....1,555,242	.....71,069	.....4.6	.....1,626,311	.....75.7	.....335,042	.....8,950	.....1,970,303	.....91.7

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	196,880	200,416	201,205	201,213	201,158
2. 2003.....	1,101,830	1,316,796	1,318,744	1,319,137	1,319,183
3. 2004.....	.XXX	1,160,138	1,369,712	1,374,891	1,375,057
4. 2005.....	.XXX	.XXX	1,239,309	1,454,135	1,455,191
5. 2006.....	.XXX	.XXX	.XXX	1,322,048	1,554,753
6. 2007.....	.XXX	.XXX	.XXX	.XXX	1,369,051

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	211,143	201,039	201,215	201,213	201,158
2. 2003.....	1,376,696	1,333,894	1,319,066	1,319,197	1,319,183
3. 2004.....	.XXX	1,439,743	1,391,049	1,375,920	1,375,304
4. 2005.....	.XXX	.XXX	1,490,572	1,469,775	1,457,412
5. 2006.....	.XXX	.XXX	.XXX	1,593,626	1,569,927
6. 2007.....	.XXX	.XXX	.XXX	.XXX	1,670,063

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....	1,630,126	1,319,183	61,568	4.7	1,380,751	84.7			1,380,751	84.7
2. 2004.....	1,696,371	1,375,057	77,437	5.6	1,452,494	85.6	247		1,452,741	85.6
3. 2005.....	1,745,443	1,455,191	64,411	4.4	1,519,602	87.1	2,221	2	1,521,825	87.2
4. 2006.....	1,832,423	1,554,753	69,464	4.5	1,624,217	88.6	15,173	1,477	1,640,867	89.5
5. 2007.....	1,898,915	1,369,051	62,713	4.6	1,431,764	75.4	301,012	7,866	1,740,642	91.7

Prior year amounts have been changed to reflect merged balances.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	9,089	9,289	9,303	9,291	9,292
2. 2003.....	52,785	61,506	61,696	61,574	61,504
3. 2004.....	XXX	57,255	64,307	64,491	64,510
4. 2005.....	XXX	XXX	63,240	72,418	72,661
5. 2006.....	XXX	XXX	XXX	65,567	76,867
6. 2007.....	XXX	XXX	XXX	XXX	66,432

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	9,560	9,301	9,303	9,291	9,292
2. 2003.....	62,447	61,770	61,698	61,574	61,504
3. 2004.....	XXX	66,294	64,436	64,511	64,510
4. 2005.....	XXX	XXX	72,651	72,777	72,665
5. 2006.....	XXX	XXX	XXX	77,401	76,994
6. 2007.....	XXX	XXX	XXX	XXX	75,850

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....	73,775	61,504	3,826	6.2	65,330	88.6			65,330	88.6
2. 2004.....	77,503	64,510	4,752	7.4	69,262	89.4	1		69,263	89.4
3. 2005.....	83,083	72,661	4,329	6.0	76,990	92.7	4		76,994	92.7
4. 2006.....	86,073	76,867	4,009	5.2	80,876	94.0	127	72	81,075	94.2
5. 2007.....	87,718	66,432	3,046	4.6	69,478	79.2	9,418	382	79,278	90.4

Prior year amounts have been changed to reflect merged balances.

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Dental
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Dental
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Dental
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Vision
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Vision
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Vision
NONE**

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	10,215	10,333	10,368	10,368	10,368
2. 2003.....	40,798	46,248	46,272	46,282	46,284
3. 2004.....	.XXX	37,485	43,388	43,526	43,531
4. 2005.....	.XXX	.XXX	44,836	52,873	52,908
5. 2006.....	.XXX	.XXX	.XXX	61,983	71,291
6. 2007.....	.XXX	.XXX	.XXX	.XXX	57,857

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	11,034	10,358	10,373	10,368	10,368
2. 2003.....	47,997	46,703	46,287	46,285	46,284
3. 2004.....	.XXX	45,526	44,184	43,577	43,533
4. 2005.....	.XXX	.XXX	54,254	53,491	52,938
5. 2006.....	.XXX	.XXX	.XXX	74,399	71,893
6. 2007.....	.XXX	.XXX	.XXX	.XXX	66,899

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....	67,319	46,284	2,270	4.9	48,554	72.1			48,554	72.1
2. 2004.....	63,712	43,531	2,864	6.6	46,395	72.8	2		46,397	72.8
3. 2005.....	71,616	52,908	2,673	5.1	55,581	77.6	30		55,611	77.7
4. 2006.....	77,588	71,291	2,984	4.2	74,275	95.7	602	39	74,916	96.6
5. 2007.....	71,597	57,857	2,638	4.6	60,495	84.5	9,042	353	69,890	97.6

Prior year amounts have been changed to reflect merged balances.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	17,340	17,340	17,340	17,340	17,340
2. 2003.....	58,135	63,481	63,503	63,503	63,503
3. 2004.....	.XXX				
4. 2005.....	.XXX	.XXX			
5. 2006.....	.XXX	.XXX	.XXX	28,275	34,465
6. 2007.....	.XXX	.XXX	.XXX	.XXX	61,863

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	17,624	17,340	17,340	17,340	17,340
2. 2003.....	65,279	63,545	63,503	63,503	63,503
3. 2004.....	.XXX				
4. 2005.....	.XXX	.XXX			
5. 2006.....	.XXX	.XXX	.XXX		35,217
6. 2007.....	.XXX	.XXX	.XXX	.XXX	77,433

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....	46,311	63,503		0.0	63,503	137.1			63,503	137.1
2. 2004.....				0.0	0	0.0			0	0.0
3. 2005.....				0.0	0	0.0			0	0.0
4. 2006.....	36,716	34,465	2,147	6.2	36,612	99.7	752	39	37,403	101.9
5. 2007.....	91,359	61,863	2,672	4.3	64,535	70.6	15,570	349	80,454	88.1

Prior year amounts have been changed to reflect merged balances.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	NONE				
2. 2003.....					
3. 2004.....		XXX			
4. 2005.....		XXX	XXX		
5. 2006.....		XXX	XXX	XXX	
6. 2007.....		XXX	XXX	XXX	XXX

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	NONE				
2. 2003.....					
3. 2004.....		XXX			
4. 2005.....		XXX	XXX		
5. 2006.....		XXX	XXX	XXX	
6. 2007.....		XXX	XXX	XXX	XXX

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....				0.0	0	0.0			0	0.0
2. 2004.....				0.0	0	0.0			0	0.0
3. 2005.....				0.0	0	0.0			0	0.0
4. 2006.....				0.0	0	0.0			0	0.0
5. 2007.....				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....					
2. 2003.....	.66	.66	.66	.66	.66
3. 2004.....	.XXX	.35	.35	.35	.35
4. 2005.....	.XXX	.XXX	.30	.30	.30
5. 2006.....	.XXX	.XXX	.XXX	.31	.31
6. 2007.....	.XXX	.XXX	.XXX	.XXX	.39

SECTION B - INCURRED HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....					
2. 2003.....	.66	.66	.66	.66	.66
3. 2004.....	.XXX	.35	.35	.35	.35
4. 2005.....	.XXX	.XXX	.30	.30	.30
5. 2006.....	.XXX	.XXX	.XXX	.31	.31
6. 2007.....	.XXX	.XXX	.XXX	.XXX	.39

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2003.....		.66		.0.0	.66	.0.0			.66	.0.0
2. 2004.....		.35		.0.0	.35	.0.0			.35	.0.0
3. 2005.....		.30		.0.0	.30	.0.0			.30	.0.0
4. 2006.....		.31		.0.0	.31	.0.0			.31	.0.0
5. 2007.....		.39		.0.0	.39	.0.0			.39	.0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
POLICY RESERVE									
1. Unearned premium reserves.....	2,071,840	2,071,840							
2. Additional policy reserves (a).....	0								
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	3,645,347		1,722,325			1,048,363	874,659		
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	5,717,187	2,071,840	1,722,325	0	0	1,048,363	874,659	0	0
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	5,717,187	2,071,840	1,722,325	0	0	1,048,363	874,659	0	0
CLAIM RESERVE									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	0								
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.	0								
0502.	0								
0503.	0								
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0
1101.	0								
1102.	0								
1103.	0								
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0

(a) Includes \$.....0 premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$.....0 for occupancy of own building).....	1,504,438	944,950	8,225,245		10,674,633
2. Salaries, wages and other benefits.....	30,055,472	15,260,505	67,693,042	103,645	113,112,664
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			46,838,325		46,838,325
4. Legal fees and expenses.....			39,194		39,194
5. Certifications and accreditation fees.....	67,253				67,253
6. Auditing, actuarial and other consulting services.....	787,105	98,170	3,458,306	652	4,344,233
7. Traveling expenses.....	603,098	120,351	1,532,766	1,686	2,257,901
8. Marketing and advertising.....	79,605		3,005,016		3,084,621
9. Postage, express and telephone.....	320,468	9,857	2,302,204	246	2,632,775
10. Printing and office supplies.....	517,587	62,427	4,161,595	440	4,742,049
11. Occupancy, depreciation and amortization.....	661,003	400,345	2,806,661	7,538	3,875,547
12. Equipment.....	106,721	61,305	400,579		568,605
13. Cost or depreciation of EDP equipment and software.....	2,498,301	236,457	17,153,497	3,388	19,891,643
14. Outsourced services including EDP, claims, and other services.....	20,297,057	10,094,745	22,434,366	33,351	52,859,519
15. Boards, bureaus and association fees.....	201,489	6,453	1,102,410	2,267	1,312,619
16. Insurance, except on real estate.....	7,133	4,734	791,555		803,422
17. Collection and bank service charges.....				278,022	278,022
18. Group service and administration fees.....					0
19. Reimbursements by uninsured plans.....					0
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....			48,998		48,998
23.2 State premium taxes.....					0
23.3 Regulator authority licenses and fees.....			400,016		400,016
23.4 Payroll taxes.....	1,634,919	888,857	3,965,858		6,489,634
23.5 Other (excluding federal income and real estate taxes).....					0
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	605,394	50,201	491,013	0	1,146,608
26. Total expenses incurred (Lines 1 to 25).....	59,947,043	28,239,357	186,850,646	431,235	(a)....275,468,281
27. Less expenses unpaid December 31, current year.....	7,191,939	3,387,919	39,807,245		50,387,103
28. Add expenses unpaid December 31, prior year.....	4,204,186	2,544,692	35,419,324		42,168,202
29. Amounts receivable relating to uninsured plans, prior year.....					0
30. Amounts receivable relating to uninsured plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	56,959,290	27,396,130	182,462,725	431,235	267,249,380

DETAILS OF WRITE-INS

2501. Other expenses.....	605,394	50,201	491,013		1,146,608
2502.					0
2503.					0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	605,394	50,201	491,013	0	1,146,608

(a) Includes management fees of \$.....31,977,580 to affiliates and \$.....0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....113,339	.....215,121
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....2,662,129	.....3,566,481
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....	.....
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....134,511	.....134,511
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....29,142,967	.....29,703,152
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....0	.....0
10. Total gross investment income.....	.....32,052,946	.....33,619,265
11. Investment expenses.....	.....	(g).....431,235
12. Investment taxes, licenses and fees, excluding federal income taxes.....	.....	(g).....
13. Interest expense.....	.....	(h).....
14. Depreciation on real estate and other invested assets.....	.....	(i).....0
15. Aggregate write-ins for deductions from investment income.....	.....	.....0
16. Total deductions (Lines 11 through 15).....	.....	.....431,235
17. Net investment income (Line 10 minus Line 16).....	.....	.....33,188,030

DETAILS OF WRITE-INS

0901. ....	.....	.....
0902. ....	.....	.....
0903. ....	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0
1501. ....	.....	.....
1502. ....	.....	.....
1503. ....	.....	.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....	.....	.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	.....	.....0
(a) Includes \$.....136,241 accrual of discount less \$.....77,606 amortization of premium and less \$.....1,527,901 paid for accrued interest on purchases.	.....	.....
(b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.	.....	.....
(c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.	.....	.....
(d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.	.....	.....
(e) Includes \$.....6,719,383 accrual of discount less \$.....821,060 amortization of premium and less \$.....3,943,181 paid for accrued interest on purchases.	.....	.....
(f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.	.....	.....
(g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.	.....	.....
(h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.	.....	.....
(i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.	.....	.....

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....	.....108,724	.....	.....108,724	.....(2,974)	.....
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....0	.....	.....
1.2 Other bonds (unaffiliated).....	.....305,182	.....	.....305,182	.....	.....
1.3 Bonds of affiliates.....	.....	.....	.....0	.....	.....
2.1 Preferred stocks (unaffiliated).....	.....	.....	.....0	.....	.....
2.11 Preferred stocks of affiliates.....	.....	.....	.....0	.....	.....
2.2 Common stocks (unaffiliated).....	.....50,005	.....	.....50,005	.....(663)	.....
2.21 Common stocks of affiliates.....	.....	.....	.....0	.....(1,706,884)	.....
3. Mortgage loans.....	.....	.....	.....0	.....	.....
4. Real estate.....	.....	.....	.....0	.....	.....
5. Contract loans.....	.....	.....	.....0	.....	.....
6. Cash, cash equivalents and short-term investments.....	.....18,226	.....	.....18,226	.....	.....
7. Derivative instruments.....	.....	.....	.....0	.....	.....
8. Other invested assets.....	.....	.....	.....0	.....5,206,963	.....
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....482,137	.....0	.....482,137	.....3,496,442	.....0

DETAILS OF WRITE-INS					
0901. ....	.....	.....	.....0	.....	.....
0902. ....	.....	.....	.....0	.....	.....
0903. ....	.....	.....	.....0	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page....	.....0	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0	.....0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.....0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.....0
2.2 Common stocks.....	3,874,760		.....(3,874,760)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.....0
3.2 Other than first liens.....			.....0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.....0
4.2 Properties held for the production of income.....			.....0
4.3 Properties held for sale.....			.....0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			.....0
6. Contract loans.....			.....0
7. Other invested assets (Schedule BA).....			.....0
8. Receivables for securities.....			.....0
9. Aggregate write-ins for invested assets.....	0	0	.....0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	3,874,760	0	.....(3,874,760)
11. Title plants (for Title insurers only).....			.....0
12. Investment income due and accrued.....			.....0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....	29,051	414,835	.....385,784
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.....0
13.3 Accrued retrospective premiums.....			.....0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.....0
14.2 Funds held by or deposited with reinsured companies.....			.....0
14.3 Other amounts receivable under reinsurance contracts.....			.....0
15. Amounts receivable relating to uninsured plans.....			.....0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.....0
16.2 Net deferred tax asset.....			.....0
17. Guaranty funds receivable or on deposit.....			.....0
18. Electronic data processing equipment and software.....	7,861,387	6,438,459	.....(1,422,928)
19. Furniture and equipment, including health care delivery assets.....	5,575,786	6,059,999	.....484,213
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.....0
21. Receivable from parent, subsidiaries and affiliates.....	2,003,485	16,423	.....(1,987,062)
22. Health care and other amounts receivable.....	3,701,044	3,422,428	.....(278,616)
23. Aggregate write-ins for other than invested assets.....	2,807,464	5,531,630	.....2,724,166
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	25,852,977	21,883,774	.....(3,969,203)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.....0
26. TOTALS (Lines 24 and 25).....	25,852,977	21,883,774	.....(3,969,203)

DETAILS OF WRITE-INS

0901. ....			.....0
0902. ....			.....0
0903. ....			.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	.....0
2301. Due from University of Michigan.....	892,310	2,435,574	.....1,543,264
2302. Prepaid expenses.....	1,809,937	3,089,008	.....1,279,071
2303. Vehicles.....	71,618		.....(71,618)
2398. Summary of remaining write-ins for Line 23 from overflow page.....	33,599	7,048	.....(26,551)
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	2,807,464	5,531,630	.....2,724,166

Prior year amounts have been changed to reflect merged balances.

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....	631,204	625,866	620,178	615,687	612,957	7,396,750
2. Provider service organizations.....						
3. Preferred provider organizations.....						
4. Point of service.....	15,495	14,503	13,901	13,177	13,446	167,921
5. Indemnity only.....						
6. Aggregate write-ins for other lines of business.....	0	0	0	0	0	0
7. Total.....	646,699	640,369	634,079	628,864	626,403	7,564,671

DETAILS OF WRITE-INS

0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	0	0	0	0	0

Prior year amounts have been changed to reflect merged balances.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Blue Care Network of Michigan (“BCN”) are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services (“OFIS”).

OFIS recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioner’s (NAIC) *Accounting Practices and Procedures Manual*, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by OFIS. As of December 2007 and 2006, respectively, BCN had no permitted practices. OFIS has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. OFIS required BCN to non-admit amounts receivable from parent, subsidiaries, and affiliates (“PSA”) over 90 days past due. In 2006, NAIC SAP allowed amounts due from affiliates to be admitted regardless of aging. Effective for years on or after December 31, 2007, *SSAP No. 96, Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties*, both NAIC SAP and OFIS required BCN to non-admit amounts receivable from parent, subsidiary and affiliates over 90 days past due.

A reconciliation of BCN's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Michigan is shown below:

	2007	2006
Net Income, Michigan basis	\$ 49,846,841	\$ 81,042,173
State Prescribed Practices:		
None	-	-
State Permitted Practices:		
None	-	-
Net Income, NAIC SAP basis	<u>\$ 49,846,841</u>	<u>\$ 81,042,173</u>
Statutory Capital and Surplus, Michigan basis	\$ 244,109,720	\$ 194,735,640
State Prescribed Practices:		
Amounts receivable from PSA		16,423
State Permitted Practices:		
None		
Statutory Capital and Surplus, NAIC SAP basis	<u>\$ 244,109,720</u>	<u>\$ 194,752,063</u>

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements, in conformity with Statutory Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

BCN uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the scientific interest method.
- (3) Common Stocks are stated at fair value.

NOTES TO FINANCIAL STATEMENTS

- (4) Preferred Stocks – NOT APPLICABLE
- (5) Mortgage loans on real estate – NOT APPLICABLE
- (6) BCN loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.
- (7) BCN records its investment in certain affiliated grantor trusts as other invested assets using the adjusted audited GAAP equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.

 BCN records its investment in BCN Service Company, a wholly owned subsidiary, using the audited GAAP equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.

 BCN records its investment in BlueCaid of Michigan (“BlueCaid”), formerly known as M-CAID, a wholly owned subsidiary, using the audited Statutory equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.
- (8) Investments in joint ventures, partnerships and limited liability companies – NOT APPLICABLE
- (9) Derivatives – NOT APPLICABLE
- (10) At December 31, 2007, BCN was not required to record a premium deficiency reserve. If the need to record such a reserve arises, BCN would use anticipated investment income as a factor in the premium deficiency calculation.
- (11) Claims Unpaid – The claims unpaid liability for incurred but unpaid and unreported hospital and medical claims is accrued in the period during which the services are provided, and includes actuarial estimates of services performed which have not been reported by providers to BCN. Such estimates are based on historical claims experience modified for current trends and changes in benefits provided. Revisions in actuarial estimates are reported in the period in which they arise. BCN has reinsured certain of its claims liabilities through an affiliated self-insurance trust. Processing expense related to claims is accrued based on an estimate of expenses to process such claims.
- (12) At December 31, 2007, BCN had no change in its capitalization policy from the prior period.
- (13) Pharmaceutical rebate receivables are estimated based on historical rebate trends and membership.

2. Accounting Changes and Corrections of Errors

Statutory Merger

BCN purchased M-CARE and its wholly owned subsidiary, M-CAID, from The Regents of the University of Michigan (“The Regents”) on December 31, 2006. BCN accounted for the purchase transaction using the statutory purchase method as defined in SSAP No. 68, *Business Combinations and Goodwill*.

During 2007, M-CAID changed its name to BlueCaid and was converted from a non-stock to a stock corporation. Effective October 1, 2007, as outlined in Note 3, BlueCaid became a wholly owned subsidiary of BCN.

NOTES TO FINANCIAL STATEMENTS

Effective December 31, 2007, M-CARE merged with and into BCN, through a statutory merger, at which time the separate existence of M-CARE ceased. The two years presented have been restated as if the merger had occurred as of January 1, 2006, as required per SSAP No. 3 – *Accounting Changes and Corrections of Errors*.

The following table represents the impact to the restated 2006 financial statements:

	As of December 31, 2006			
	BCN	M-CARE	Merger Accounting	Combined
Balance Sheet				
Assets	\$ 650,885,443	\$ 135,632,070	\$ (111,117,015)	\$ 675,400,498
Liabilities	\$ 422,598,918	\$ 58,162,740	\$ (96,800)	\$ 480,664,858
Capital and Surplus	\$ 228,286,525	\$ 77,469,330	\$ (111,020,215)	\$ 194,735,640
	For the Year Ended December 31, 2006			
Income Statement				
Net Income	\$ 28,389,203	\$ 52,652,970	\$ -	\$ 81,042,173

The merger accounting adjustments reflect the elimination of BCN's carrying value for M-CARE including admitted goodwill as well as an intercompany transaction. There have been no adjustments recorded directly to surplus for any entity that did not previously prepare statutory statements.

Prior period premium revenue allowance

In 2006, BCN made an adjustment to increase capital and surplus by \$460,602 to eliminate the effect of a GAAP allowance off-setting premium revenue, which was created in a prior period.

3. Business Combinations and Goodwill

A) Statutory Purchase Method

BCN Service Company

- On December 1, 2006, BCN purchased all the common stock in BCN Service Company from an affiliated entity, Blue Care of Michigan, Inc. (BCMI). BCN Service Company had been a wholly owned subsidiary of BCMI. BCN Service Company is a third party administrator (TPA) licensed by OFIS.
- BCN accounted for the purchase transaction using the statutory purchase method as defined in SSAP No. 68, Business Combinations and Goodwill, with BCN Service Company becoming a wholly owned subsidiary of BCN.
- The cost of the BCN Service Company acquisition totaled \$41,077 which was the statutory book value of BCN Service Company as of November 30, 2006, with BCMI receiving cash in exchange for all common shares in BCN Service Company. There was no goodwill associated with the purchase.
- BCN did not recognize any goodwill amortization relating to the acquisition of BCN Service Company in 2007 or 2006.

BlueCaid of Michigan (formerly known as M-CAID)

- On December 31, 2006, BCN purchased M-CARE and its wholly owned subsidiary from The Regents. M-CAID changed its name to BlueCaid and effective October 1, 2007, BlueCaid became a wholly owned subsidiary of BCN. BlueCaid, an HMO licensed by the State of Michigan, commenced business in 2003 to separate Medicaid HMO operations and financing from M-CARE, offers Medicaid HMO services to members in two counties and certain zip codes in a third county in Southeast Michigan. As detailed in Notes 2 and 3B related to the merger of BCN and M-CARE, BlueCaid is reported as a wholly owned subsidiary of BCN as of January 1, 2006.

NOTES TO FINANCIAL STATEMENTS

2. BCN accounted for the purchase transaction using the statutory purchase method as defined in SSAP No. 68, Business Combinations and Goodwill.
3. BCN did not recognize any goodwill amortization relating to the acquisition of BlueCaid in 2007 or 2006.

B) Statutory Merger – M-CARE

1. Effective December 31, 2006, BCN purchased M-CARE and its wholly owned subsidiary, M-CAID, are both HMOs licensed by the State of Michigan, from The Regents. This acquisition was initially accounted for using the statutory purchase method as outlined in *SSAP No. 68, Business Combinations and Goodwill*. The original purchase resulted in goodwill of \$151,415,309, originally intended to be amortized over 10 years. There was no amortization of goodwill for 2006. Effective December 31, 2007, M-CARE merged into BCN, at which time the separate existence of M-CARE ceased. Due to the merger, and following the guidance of SSAP No. 68, goodwill was fully charged to surplus. As detailed in Note 3A, BlueCaid is a wholly owned subsidiary of BCN.
2. The merger of M-CARE was accounted for using the statutory merger method defined in *SSAP No. 68, Business Combinations and Goodwill*.
3. The statutory merger did not involve any stock transactions since M-CARE was originally purchased as a subsidiary from The Regents.
4. Pre-merger separate company revenue, net income prior to goodwill amortization, and other surplus adjustments including elimination of goodwill for twelve months ended December 31, 2007 were \$1,761,871,562, \$43,109,785 and (\$122,004,799) respectively for BCN and \$389,985,395, \$6,737,055 and \$10,511,825 respectively for M-CARE.
5. There have been no adjustments recorded directly to surplus for any entity that did not previously prepare statutory statements.

C) Assumption Reinsurance – NOT APPLICABLE

D) Impairment Loss

BCN did not recognize an impairment loss relating to the 2006 acquisition of BCN Service Company. The carrying costs of certain assets were written down to reflect an adjustment to the lower of the fair market value or net book value at acquisition of M-CARE. Impairment of \$2,517,783 is reflected in general administrative expenses for 2006. In 2007, BCN recognized \$1,113,395 in depreciation, reflected in claims adjustment expenses, related to the reduction of the useful lives of certain assets formerly owned by M-CARE.

4. Discontinued Operations – On December 31, 2006 and prior to the merger disclosed in Note 2B, M-CARE sold Michigan Health Insurance Company (“MHIC”), a wholly owned subsidiary, to Blue Cross Blue Shield of Michigan (“BCBSM”) for \$33,608,000. Upon receiving the proceeds, M-CARE paid an extraordinary dividend on December 31, 2006 to The Regents for the total amount of the sale.

The sale resulted in a gain of \$28,195,756 that is reported as a realized gain on the Statement of Revenues and Expenses—Statutory Basis. The gain represents the difference between the sale price and the statutory book value of MHIC at December 31, 2006. The dividend paid to The Regents for the sales proceeds resulted in a \$5,412,244 reduction of the December 31, 2006 total admitted assets and total capital and surplus, therefore eliminating the book value of M-CARE’s previous investment in the subsidiary, MHIC.

The dividend of the sale proceeds was approved by the M-CARE Board of Directors at a special board meeting on November 20, 2006 in preparation for the pending acquisition of MHIC by BCBSM.

NOTES TO FINANCIAL STATEMENTS

5. Investments

- A. Mortgage Loans – NOT APPLICABLE
- B. Debt Restructuring – NOT APPLICABLE
- C. Reverse Mortgages – NOT APPLICABLE
- D. Loan-Backed Securities
 - a. BCN loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.
- E. Repurchase Agreements – NOT APPLICABLE
- F. Real Estate – NOT APPLICABLE
- G. Investments in low-income housing tax credits (LIHTC) – NOT APPLICABLE

6. Joint Ventures, Partnerships and Limited Liability Companies – NOT APPLICABLE.

7. Investment Income

BCN had no non-admitted accrued investment income as of December 31, 2007 and 2006, respectively. BCN would exclude from surplus any due and accrued income that is over 90 days past due.

8. Derivative Instruments – NOT APPLICABLE

9. Income Taxes - BCN has been recognized by the Internal Revenue Service under Internal Revenue Code Section 501(c)(4) as an organization exempt from tax under Section 501(a). In 2007 and 2006, BCN recorded \$31,475 and \$31,541, respectively, in federal income tax expense on unrelated business income.

10. Information Concerning Parent, Subsidiaries and Affiliates

BCN is a nonprofit stock corporation, a wholly owned subsidiary of BCBSM, and licensed as a Health Maintenance Organization (HMO) by the State of Michigan. BCN operates as a combination staff and network model health maintenance organization. BCN provides health care services to subscribers at its own outpatient health facilities and through contracts it has entered into with various physician groups, hospitals, and other health care providers.

As referred to in Note 3, Business Combinations and Goodwill, BCN purchased BCN Service Company on December 1, 2006 and BCN directly acquired BlueCaid of Michigan (formerly known as M-CAID) on October 1, 2007 from M-CARE. In addition, BCN merged with M-CARE on December 31, 2007 resulting in a restatement at January 1, 2006.

BCN conducts business transactions with BCBSM and affiliates on a routine basis. All related party receivable and payable balances are classified as either amounts due to or from parent, subsidiaries and affiliates, except for reinsurance ceded, ceded reinsurance premium payable, and claims unpaid.

Claims Processing - BCBSM processes and pays some hospital, hearing, and professional claims on behalf of BCN. BCN reimburses BCBSM at agreed upon rates for claims and pays an administrative fee for each claim processed by BCBSM. BCBSM billed BCN \$529,727,307 and \$472,112,598 in 2007 and 2006, respectively, for such claims. BCBSM charged BCN \$344,743 and \$331,907 at December 31, 2007 and 2006, respectively, for certain claims processing. BCN owed BCBSM for claims processing \$48,051 and \$56,571 at December 31, 2007 and 2006, respectively. BCN owed BCBSM \$50,602,053 and \$41,188,204 for claims billed at December 31, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

BCN shares in a combined BCBSM and BCN claims settlement process for certain hospitals. BCN billed BCBSM \$1,862,879 in 2007 for claims settlements. BCBSM billed BCN \$28,023 in 2006 for claim settlements. Claim settlements owed to BCBSM from BCN were \$2,855,142 as of December 31, 2007. Claim settlements owed to BCN from BCBSM were \$5,409,452 as of December 31, 2006.

Administrative Cost Allocation - BCBSM provides and bills BCN for miscellaneous administrative support, including computer operations support. BCBSM purchases services on behalf of BCN, such as telephone services, and bills BCN accordingly. BCBSM also makes payments on behalf of BCN for expenses, such as agent fees, and bills BCN for payment. BCBSM billed BCN \$80,586,822 and \$70,068,856 for 2007 and 2006, respectively. BCN owed BCBSM \$15,696,483 and \$13,248,844 at December 31, 2007 and 2006, respectively.

Administrative support fees paid to affiliates were allocated to the statutory administrative expense categories of cost containment, other claims adjustment, general administrative, and investment expenses, based on the affiliates' statutory administrative expense categories. These statutory administrative expense categories were further allocated to detailed expense accounts based on the affiliates' expense detail.

Michigan Health Insurance Company - At December 31, 2006, Michigan Health Insurance Company (MHIC) was purchased by BCBSM as a wholly owned subsidiary from M-CARE. BCN provides and bills MHIC for miscellaneous administrative support. BCN billed MHIC \$2,882,065 and \$4,113,957 in 2007 and 2006, respectively. MHIC owed BCN \$241,554 and \$0 at December 31, 2007 and 2006, respectively. BCN owed MHIC \$16,031 and \$0 at December 31, 2007 and 2006, respectively.

Blue Care Network Medical Malpractice Self-Insurance Trust - BCN has an agreement with an affiliated grantor trust to provide malpractice coverage. BCN malpractice coverage premium expenses were \$303,482 and \$0 related to the Malpractice Trust in 2007 and 2006, respectively. BCN owed the Malpractice Trust \$152,517 and \$0 at December 31, 2007 and 2006, respectively. The Malpractice Trust owed BCN \$75 and \$14,721 for 2007 and 2006, respectively, relating to claims.

BCN's investment in the Malpractice Trust is determined using the adjusted audited GAAP equity method and was 97.48% and 97.58% at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, BCN's investment in the Malpractice Trust, reported as an other invested asset, was \$57,634,270 and \$53,606,080 respectively.

BCN provides and bills the Malpractice Trust for miscellaneous administrative support. Miscellaneous administrative expenses reimbursed from the Malpractice Trust totaled \$82,989 and \$14,400 in 2007 and 2006, respectively. The Malpractice Trust owed BCN \$68,689 and \$0 at December 31, 2007 and 2006, respectively. BCN also makes payments on behalf of the Malpractice Trust for certain other miscellaneous administrative expenses and bills the Malpractice Trust for payment. BCN billed the Malpractice Trust \$21,301 and \$21,833 for 2007 and 2006, respectively. The Malpractice Trust owed BCN \$3,043 and \$0 at December 31, 2007 and 2006, respectively.

Blue Care Network Stop-Loss and Casualty Self-Insurance Trust – BCN has an agreement with an affiliated grantor trust to provide stop-loss and insolvency coverage and reduced deductibles for property, general liability, automobile, and fidelity insurance coverages. The Stop-Loss Trust covers risks incurred in excess of a retention amount. BCN is responsible for inpatient hospital claims up to \$150,000 per member each calendar year (the "deductible") and has an agreement with the affiliated trust to cover the claims incurred over the deductible.

Stop-loss coverage expenses amounted to \$12,363,660 and \$8,023,048 in 2007 and 2006, respectively. Stop-loss coverage recoveries recorded from the Stop-Loss Trust totaled \$13,034,942 and \$5,912,905 in 2007 and 2006, respectively.

At December 31, 2007 and 2006, BCN had receivables from the Stop-Loss Trust for known stop-loss coverage recoveries on paid claims of \$0. In addition, at December 31, 2007 and 2006, BCN recorded as a reduction to claims unpaid, \$9,520,434 and

NOTES TO FINANCIAL STATEMENTS

\$7,857,452, respectively, of estimated recoverable amounts for potential claims exceeding the deductible based on actuarial estimates using historical recovery trends. BCN owed the Stop-Loss Trust \$2,144,305 and \$0 at December 31, 2007 and 2006, respectively, for premiums.

BCN's investment in the Stop-Loss Trust is determined using the adjusted audited GAAP equity method and was 99.45% and 99.46% at December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, BCN's investment in the Stop-Loss Trust, reported as an other invested asset, was \$13,201,355 and \$12,348,760, respectively.

BCN provides and bills the Stop-Loss Trust for miscellaneous administrative support. Miscellaneous administrative expenses reimbursed from the Stop-Loss Trust totaled \$53,591 and \$14,400 in 2007 and 2006, respectively. The Stop-Loss Trust owed BCN \$39,291 and \$0 at December 31, 2007 and 2006. BCN also makes payments on behalf of the Stop-Loss Trust for certain other miscellaneous administrative expenses and bills the Stop-Loss Trust for payment. BCN billed the Stop-Loss Trust \$21,301 and \$21,833 for 2007 and 2006, respectively. The Stop-Loss Trust owed BCN \$3,043 and \$0 at December 31, 2007 and 2006, respectively.

Health Insurance - BCN purchases health insurance coverage for certain of its employees from BCBSM. Expenses were \$7,111,194 and \$7,176,574 in 2007 and 2006, respectively. No amounts were owed by BCN to BCBSM at December 31, 2007 and 2006 for premiums on current employees. Additionally, BCBSM purchases health insurance for certain of its employees from BCN. The amounts billed by BCN for such insurance were \$14,788,227 and \$13,262,334 in 2007 and 2006, respectively. No amounts were due to BCN from BCBSM for premiums at December 31, 2007 and 2006.

The Accident Fund Insurance Company of America ("AFC"), a wholly owned subsidiary of BCBSM, also purchases health insurance for certain of its employees from BCN. The amounts billed by BCN for such insurance were \$2,042,856 and \$1,791,729 in 2007 and 2006, respectively. No amounts were due to BCN from AFC for premiums at December 31, 2007 and 2006.

Health Care Exchange, LTD, d/b/a DenteMax ("DenteMax"), a wholly owned subsidiary of BCBSM, also purchases health insurance for certain of its employees from BCN. The amounts billed by BCN for such insurance were \$303,477 and \$239,632 in 2007 and 2006, respectively. No amounts were due to BCN from DenteMax for premiums at December 31, 2007 and 2006.

Workers' Compensation – BCN purchases workers' compensation insurance from AFC. Amounts billed by AFC were \$540,394 and \$187,674 for the years ended December 31, 2007 and 2006, respectively. BCN owed AFC \$2,621 and \$0 at December 31, 2007 and 2006, respectively.

Capitated Health Care Program - BCN participated in the "Personal Plus" program, a capitated health care program sponsored by an affiliated company, Blue Care of Michigan, Inc. ("BCMI"). BCN receives monthly capitation from BCMI for subscribers in the BCN coverage area. BCN is responsible for collecting premiums, on behalf of BCMI, and is at risk for all medical claims. Revenue derived through the Personal Plus program, reported as risk revenue, was \$3,930,513 and \$3,745,605 in 2007 and 2006, respectively. Administrative expenses billed by BCN to BCMI in 2007 and 2006 were \$474,003 and \$439,379, respectively. BCN owed BCMI \$24,505 and \$66,874 at December 31, 2007 and 2006, respectively.

Point of Service/Blue Preferred Plus - BCN provides BCBSM with miscellaneous administrative support for certain products offered by BCBSM. BCBSM bears all risk associated with these products. Miscellaneous administrative expense incurred by BCN and subject to reimbursement from BCBSM related to these products totaled \$2,390,812 and \$2,498,832 in 2007 and 2006, respectively. No amounts were due to BCN from BCBSM at December 31, 2007 or 2006.

Blue Care of Michigan, Inc. - BCN provided and billed BCMI for miscellaneous administrative support. Miscellaneous administrative expenses incurred by BCN and reimbursed from BCMI totaled \$93,722 and \$83,208 in 2007 and 2006, respectively. BCMI owed BCN \$12,305 and \$0 at December 31, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

BCN also makes payments on behalf of BCMI for certain other miscellaneous administrative expenses and bills BCMI for payment. BCN billed BCMI \$32,480 and \$41,614 for 2007 and 2006, respectively. BCMI owed BCN \$4,640 and \$0 at December 31, 2007 and 2006, respectively.

BCN also provided and billed BCMI for certain administrative support related to the "Personal Dental" program which was discontinued as of April 30, 2007. Amounts billed to BCMI were \$1,490 and \$5,891 in 2007 and 2006, respectively. No amounts were owed by BCMI to BCN at December 31, 2007 and 2006.

BCBSM Foundation – BCN provides and bills the BCBSM Foundation for miscellaneous administrative support. Miscellaneous administrative expenses incurred by BCN and reimbursed from the BCBSM Foundation totaled \$16,102 and \$12,000 for 2007 and 2006, respectively. BCN also makes payments on behalf of the Foundation for certain other miscellaneous administrative expenses and bills the Foundation for payment. BCN billed the Foundation \$16,713 and \$16,940 for 2007 and 2006, respectively. No amounts were owed by the Foundation to BCN at December 31, 2007 and 2006.

BCN Service Company – As detailed in Note 3 – Business Combinations and Goodwill – BCN purchased all outstanding stock of BCN Service Company at December 1, 2006. BCN Service Company is a Third Party Administrator licensed to do business in the State of Michigan. BCN records this investment using the audited GAAP equity method.

Following the guidance of SSAP No. 97 – *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*, effective for years ending on or after December 31, 2007, BCN's investment in BCN Service Company, has been completely non-admitted at December 31, 2007. To admit, a separate financial audit would be required, and management decided to non-admit its investment of \$3,874,760 at December 31, 2007. At December 31, 2006, BCN's investment in the BCN Service Company was \$289,294, fully admitted, using the audited GAAP equity method as allowed by SSAP No. 88 – *Investments in Subsidiary, Controlled, and Affiliated Entities, A replacement of SSAP No. 46 and the Transition Guidance for Year-End 2006 Reporting*.

During 2007, BCN's Board authorized \$4,800,000 and paid \$4,500,000 as capital infusions, recording it as an additional investment in BCN Service Company, a wholly owned subsidiary. During 2006, BCN's management authorized and paid \$300,000 as an additional investment in BCN Service Company. This paid-in capital is reflected in the carrying value of BCN's investment in subsidiary.

BCN processes claims on behalf of BCN Service Company and charges an administrative fee for such services. BCN billed BCN Service Company \$556,646 and \$0 for 2007 and 2006, respectively. BCN also makes payments on behalf of BCN Service Company for certain other miscellaneous administrative expenses and bills BCN Service Company for payment. BCN billed BCN Service Company \$695,049 and \$51,518 for 2007 and 2006, respectively. In total, BCN Service Company owed BCN \$449,597 and \$0 at December 31, 2007 and 2006, respectively. BCN owes BCN Service Company \$5,664 and \$0 at December 31, 2007 and 2006, respectively.

BlueCaid of Michigan – Effective October 1, 2007, and prior to the merger detailed in Note 3A, BlueCaid of Michigan (formerly known as M-CAID) became a wholly owned subsidiary of BCN. BCN records this investment using the audited statutory equity method. BCN's investment in BlueCaid was \$2,979,805 and \$1,873,929 at December 31, 2007 and 2006, respectively. BCN provides and bills BlueCaid for miscellaneous administrative support. BCN billed BlueCaid \$5,151,961 and \$3,826,910 in 2007 and 2006, respectively. BlueCaid owed BCN \$5,666,946 and \$0 at December 31, 2007 and 2006, respectively. BCN owed BlueCaid \$417,281 and \$0 at December 31, 2007 and 2006, respectively.

During 2007, BCN's Board authorized and paid \$1,500,000 as a capital infusion, recording it as an additional investment in BlueCaid. This paid-in capital is reflected in the carrying value of BCN's investment in subsidiary.

Other

NOTES TO FINANCIAL STATEMENTS

BCN performs the test of “significance of an investment to the reporting entity’s financial position and results of operations,” as required by SSAP No. 97, *Investment in Subsidiary, Controlled and Affiliated Entities, a Replacement of SSAP No 88*. BCN’s carrying value of its investment in Blue Care Network Medical Malpractice Self-Insurance Trust, Blue Care Network Stop-Loss and Casualty Self-Insurance Trust, BCN Service Company, and BlueCaid do not individually exceed 10% of BCN’s total admitted assets.

BCN does not guarantee or undertake for the benefit of an affiliate a material contingent exposure of BCN’s or any affiliated insurer’s assets or liabilities.

BCN does not have management or service contracts or cost sharing arrangements, other than such arrangements described in these footnotes.

BCN does not own shares of an upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.

BCBSM, BCN, BCMI, BCBSM Foundation, BCN Service Company, BlueCaid, Michigan Health Insurance Company, DenteMax, and the Accident Fund Insurance Company of America have some common officers and board members on their respective governing boards.

11. Debt – NOT APPLICABLE
12. Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Postretirement Benefit Plans
- A. Defined Benefit Plan

Substantially all employees of BCN, who meet certain requirements of age and length of service, are covered by defined benefit retirement plans administered by BCBSM. BCN’s policy is to fund accrued retirement costs, as determined by BCBSM’s consulting actuaries, to the extent permitted by Internal Revenue Service regulations.

The defined benefit retirement plans weighted-average target asset allocation and actual asset allocation at December 31, 2007 and 2006, by asset category are as follows:

Asset Category	Target	2007	2006
Equity securities	70.0 %	72.0 %	73.0 %
Debt securities / Fixed Income	25.0 %	26.0 %	25.0 %
Other	5.0 %	2.0 %	2.0 %
Total	100.0 %	100.0 %	100.0 %

BCBSM has developed an asset allocation policy based on its objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. This policy is long-term oriented and consistent with BCBSM’s risk posture. BCBSM uses a mix of core and satellite managers to implement its asset allocation policy. BCBSM reviews on a periodic basis its asset mix and reallocates its portfolio at any time there is a material deviation in the asset class as described in the allocation policy. The policy includes a target allocation, as included in the table above, and a range of plus or minus 3 percent of the target established.

BCN provides certain postretirement health care benefits to substantially all employees that meet certain age and length of service requirements under a plan administered by BCBSM. This plan is “pay-as-you-go” and as such, has no asset allocations. Benefits are funded as incurred. These benefits are subject to revision at the discretion of the Board of Directors for nonrepresented employees and subject to collective bargaining agreements for represented employees.

Under the amended retirement account plan for nonrepresented employees, each participant has an account balance to which interest and earnings credits are added. Interest is credited quarterly based on the prior August one-year Treasury Bill rate. For employees hired prior to January 1, 2007, annual earnings credits of

NOTES TO FINANCIAL STATEMENTS

6% to 10% are credited to participants' account balances on a monthly basis and monthly 2% annual transition credits are made through 2008. For employees hired on or after January 1, 2007, annual earnings credits of 3% to 5% are credited to participants' account balances on a monthly basis. Employees can elect to receive the lump-sum value of their vested account balance or monthly payments at retirement or termination.

Revisions to the nonrepresented and represented employees' postretirement health care benefits took effect January 1, 2004, and January 1, 2006, respectively. Nonrepresented and represented employees retiring after December 31, 2003, and December 31, 2005, respectively, may share in the cost of their health care premiums and have higher deductibles and co-payments depending on their eligibility status at December 31, 2003, and December 31, 2005, respectively. Additionally, nonrepresented and represented employees hired on or after January 1, 2004, and January 1, 2006, respectively, are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits. Effective January 1, 2008, non-represented retirees that are Medicare eligible will be required to enroll in one of BCBSM or BCN's Medicare Advantage product offerings in order to receive company provided healthcare coverage.

The plan is noncontributory for represented employees and contributions of \$14,936 and \$10,170 have been made by nonrepresented retirees for 2007 and 2006, respectively.

Non-Qualified Plans - Retirement benefits are provided for a group of key employees under non-qualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the Internal Revenue Code. Benefits under the plans are unfunded and paid out of general assets of BCN.

A summary of assets, obligations, and assumptions of the pension and other postretirement benefit plans at the plan's measurement dates of September 30, 2007 and 2006, and as allocated to BCN from BCBSM, are as follows at December 31, 2007 and 2006:

NOTES TO FINANCIAL STATEMENTS

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefits obligation—beginning of year	\$ 108,479,945	\$ 101,266,856	\$ 62,714,745	\$ 55,793,393
Service cost	5,833,776	7,598,119	4,306,286	3,527,895
Interest cost	6,428,982	5,735,082	3,293,782	3,358,295
Amendments	0	786,780	(2,606,517)	(408,726)
Actuarial loss (gain)	(3,757,886)	(2,450,676)	(7,647,448)	3,488,635
Benefits paid	<u>(5,703,928)</u>	<u>(4,456,216)</u>	<u>(3,304,550)</u>	<u>(3,044,747)</u>
Benefits obligation—end of year	<u>\$ 111,280,889</u>	<u>\$ 108,479,945</u>	<u>\$ 56,756,298</u>	<u>\$ 62,714,745</u>
	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Change in plan assets:				
Fair value of plan assets—beginning of year	\$ 103,496,077	\$ 97,465,203	\$	\$
Actual return on plan assets	15,601,542	10,221,277		
Employer contribution	0	152,000		
Benefits paid	<u>(5,590,219)</u>	<u>(4,342,403)</u>		
Fair value of plan assets—end of year	<u>\$ 113,507,400</u>	<u>\$ 103,496,077</u>	<u>\$</u>	<u>\$</u>
	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Funded Status:				
Funded status - (underfunded) funded	\$ 2,226,511	\$ (4,983,867)	\$ (56,756,298)	\$ (62,714,745)
Unamortized prior service cost	714,642	784,805	(4,320,157)	(2,139,128)
Unrecognized net (gain) loss	(17,657,218)	(6,658,000)	12,428,095	20,755,254
Additional liability	(14,170)	(168,090)		
Contribution between measurement date and fiscal year end	<u>28,418</u>	<u>28,453</u>		
Accrued liabilities	<u>\$ (14,701,817)</u>	<u>\$ (10,996,699)</u>	<u>\$ (48,648,360)</u>	<u>\$ (44,098,619)</u>
Amounts recognized in the statement of admitted assets, liabilities, capital and surplus - statutory basis consist of:				
Accrued pension expense included in other liabilities	\$ (14,701,817)	\$ (10,996,699)	\$ -	\$ -
Less: Prepaid nonadmitted assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net accrued liability	<u>\$ (14,701,817)</u>	<u>\$ (10,996,699)</u>	<u>\$</u>	<u>\$</u>

The accumulated benefit obligation for all defined benefit pension plans was \$100,497,146 and \$97,609,086 at September 30, 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Benefit obligation for non vested employees	\$ 1,585,956	\$ 1,625,863	\$ 19,244,671	\$ 23,804,874

Information for pension plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2007 and 2006, is as follows:

	2007	2006
Projected benefit obligation	\$ 34,694,790	\$ 32,672,508
Accumulated benefit obligation	\$ 27,789,762	\$ 25,852,361
Fair Value of plan assets	\$ 29,027,429	\$ 25,938,200

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service Cost	\$ 5,833,776	\$ 7,598,119	\$ 4,306,286	\$ 3,527,895
Interest Cost	6,428,982	5,735,082	3,293,782	3,358,295
Expected return on plan assets	(8,333,968)	(7,921,052)		
Amortization of unrecognized (gain) loss	(26,241)	(14,508)	679,710	959,833
Amount of prior service cost recognized	70,163	1,975	(425,488)	(302,217)
Total net periodic benefit cost	\$ 3,972,712	\$ 5,399,616	\$ 7,854,290	\$ 7,543,806

The weighted-average assumptions as of December 31, 2007 and 2006 are as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	6.30 %	5.90 %	6.40 %	6.00 %
Rate of compensation increase	4.75 %	4.75 %	N/A	N/A
Expected long-term rate of return on plan assets	9.00 %	9.00 %	N/A	N/A

For 2008, the expected long-term rate of return on assets will be 9%.

For 2007 measurement purposes, the health care trend rate on covered postretirement benefits is assumed to be 7.75% for 2008, ratably decreasing to 5.00% by 2015 and all years thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	\$ 1,149,890	\$ 941,648
Effect on postretirement benefit obligation	\$ 7,310,211	\$ 6,124,005

NOTES TO FINANCIAL STATEMENTS

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“Act”) was signed into law. The Act provides a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least equivalent to the Medicare Part D benefit. In 2004, BCN adopted Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. BCN determined that the prescription drug benefits provided by postretirement health care plans administered by BCBSM are actuarially equivalent to the Medicare Part D and accordingly, entitles BCN to the federal subsidy described in the Act.

At December 31, 2007, the gross benefit payments expected to be paid and subsidies anticipated to be received by BCN are as follows:

Years Ending December 31,	Pension Benefits	Postretirement Benefits	
	Future Benefit Payments	Future Benefit Payments	Anticipated Future Subsidies
2008	\$ 5,120,000	\$ 3,510,000	\$ 210,000
2009	5,630,000	3,780,000	230,000
2010	5,990,000	4,060,000	280,000
2011	6,720,000	4,450,000	320,000
2012	7,480,000	4,790,000	370,000
2013 through 2017	<u>46,690,000</u>	<u>30,240,000</u>	<u>2,820,000</u>
Total	<u>\$ 77,630,000</u>	<u>\$ 50,830,000</u>	<u>\$ 4,230,000</u>

At December 31, 2007, BCN does not expect to contribute to its defined benefit pension plans in 2008.

Deferred Compensation Plan - BCN has a deferred compensation benefit plan for a group of key employees and members of BCN’s Board of Directors. Under the plan, eligible participants may elect to defer to a future period a portion of salary or director fees that are earned and normally payable as services are rendered. Elections to defer compensation must be made prior to the end of the month for deferrals to become effective in the following month. Deferred amounts are unfunded and paid out of the general assets of BCN

Defined Contribution Plans — Substantially all employees who have attained the age of 21 years and have completed three months of continuous service for represented employees or one year of service for non-represented employees may elect to participate in one of two employee savings plans administered by BCBSM, which are qualified under Section 401(k) of the Internal Revenue Code. Participating employees may elect to contribute to the Plan and BCN matches a portion of the employees’ contributions. BCN’s contributions were \$3,191,716 and \$2,233,981 in 2007 and 2006, respectively.

- B. **Multi-employer Plans** – NOT APPLICABLE.
- C. **Consolidated/Holding Company Plans** – NOT APPLICABLE
- D. **Post employment Benefits and Compensated Absences** – NOT APPLICABLE

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations.

- (1) BCN has 500 shares authorized, 100 shares issued and 100 shares outstanding. All shares are one class – all common stock and have a par value of \$100 per share.
- (2) BCN has no preferred stock outstanding.

NOTES TO FINANCIAL STATEMENTS

- (3) The Company's Articles of Incorporation do not allow dividends. Prior to the merger of M-CARE detailed in Note 2, M-CARE Articles of Incorporation were amended to permit the extraordinary dividend of BlueCaid to BCN.
- (4) The Company's Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholders be entitled to any portion of the earnings derived through increment of value upon its property or otherwise incidentally made.
- (5) There were no restrictions placed on the BCN's surplus, including for whom the surplus is being held.
- (6) The total amount of advances to surplus not repaid – NOT APPLICABLE
- (7) The amount of stock held by BCN for special purposes – NOT APPLICABLE
- (8) Special surplus funds changes – NOT APPLICABLE
- (9) The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses were an unrealized gain of \$3,496,443 as of December 31, 2007.
- (10) Surplus debentures of similar obligations – Prior to the merger of M-CARE detailed in Note 2, M-CARE had a surplus note payable to the University of Michigan, issued on May 22, 1986, with a balance of \$0 on December 31, 2006. Principal and interest payments were approved by M-CARE's Board of Directors and the OFIS, and were subordinate to the payment of administrative and health care costs. Interest was computed annually based on the lesser of 7% or the interest yield on long-term Treasury Notes at December 31 each year. Interest rates ranged from 4.42% to 5.11% for 2006. Principal payments of \$2,831,000 were made on the subordinated note in 2006. Interest payments totaled \$347,649 in 2006. There was no activity, payments, or balances due for 2007.
- (11) Impact of any restatement due to quasi-reorganization – NOT APPLICABLE
- (12) Effective dates of all quasi-reorganizations in the prior 10 years is/are – NOT APPLICABLE
- (13) Dividends Paid – As detailed in Note 4, on December 31, 2006 (prior to the merger of BCN and M-CARE), M-CARE paid an extraordinary dividend of \$33,308,000 to The Regents. As detailed in Note 10, on October 1, 2007 (prior to the merger of BCN and M-CARE), M-CARE paid a non-cash extraordinary dividend of \$3,700,106 transferring the ownership of BlueCaid to BCN.

14. Contingencies

- A. Contingent Commitments – NOT APPLICABLE
- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. Claims Related to Extra Contractual Obligations and Bad Faith Losses Stemming from Lawsuits – NOT APPLICABLE
- E. All Other Contingencies

BCN is a party to lawsuits incidental to the operations of BCN. Management believes that the ultimate disposition of such contingencies will not have a material effect on the accompanying statutory basis financial statements.

15. Leases

- A. Lessee Operating Lease
 - (1) Lessees leasing arrangements

NOTES TO FINANCIAL STATEMENTS

BCN has entered into certain cancelable building leases with BCBSM. Rent expense paid to BCBSM in 2007 and 2006 was \$2,362,768 and \$1,885,395, respectively.

BCN also leases office buildings under operating leases with different unrelated parties. Rent expense under these leases was \$7,424,287 and \$5,995,703 in 2007 and 2006, respectively.

BCN has the option to purchase its headquarters building but has not exercised such option. The purchase price increases by 3% per year thereafter through the first 5 years of the lease. If the decision to purchase the building occurs after the first 5 years, BCN shall attempt to negotiate a reasonable price. BCN also has the option at the expiration of the lease at June 30, 2015, to extend the lease for 3 terms of 5 years each with prior written notice.

In December 2007, BCN abandoned one of its administrative office facilities in Ann Arbor, Michigan. Although BCN remains obligated under the terms of the lease for the rent and other costs associated with the lease, BCN made the decision to cease using the space on December 21, 2007, and has no foreseeable plans to occupy it in the future. BCN recorded costs of exiting the space of \$908,894 in general administrative expenses in the statement of revenues and expenses. The liability is equal to the total amount of rent and other direct costs until the lease expires on June 30, 2008.

(2) Noncancelable leases

(a) At December 31, 2007, the minimum aggregate rental commitments are as follows:

Year Ending December 31	Operating Leases
2008	5,170,897
2009	5,164,487
2010	5,153,880
2011	3,605,820
2012	3,695,966
2013 and thereafter	9,600,495
Total	<u>\$ 32,391,545</u>

(b) Non-cancelable subleases – NOT APPLICABLE

(3) Sales-leaseback transactions – NOT APPLICABLE

B. Lessor Leases – NOT APPLICABLE

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk – NOT APPLICABLE

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

BCN, in the normal course of business, enters into security lending agreements with various other counterparties. Under these agreements, BCN lends U.S. government and corporate securities in exchange for collateral consisting primarily of cash and U.S. government notes, approximating 102% of the value of the securities loaned. The collateral pledged from counterparties is not available for BCN's general use and therefore is restricted. These agreements are primarily overnight in nature and settled the next business day. At December 31, 2007 and 2006, securities lending cash collateral totaled \$55,798,581 and \$22,803,431, respectively, and non-cash collateral totaled \$174,519,721 and \$0, respectively.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans –

A. ASO Plans – NOT APPLICABLE

B. ASC Plans – NOT APPLICABLE

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contract

NOTES TO FINANCIAL STATEMENTS

1. Revenue from BCN's Medicare Part D cost based reimbursement portion of the contract for the year 2007, consisted of \$1,276,401 for reinsurance subsidy and \$926,706 for low-income cost sharing subsidy.
2. As of December 31, 2007, BCN had recorded receivables from the following payors whose account balances are greater than 10% of BCN's amounts receivable from uninsured accident and health plans or \$10,000:

CMS \$0

3. In connection with BCN's Medicare D cost based reimbursement portion of the contract, BCN has recorded allowances and reserves for adjustment of recorded revenues in the amount of \$1,053,105 at December 31, 2007.
 4. BCN has made no adjustment to revenue resulting from audit of receivables related to revenues recorded in the prior period.
19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators – NOT APPLICABLE

20. Other Items

- A. Extraordinary Items – NOT APPLICABLE
- B. Troubled Debt Restructuring – NOT APPLICABLE
- C. Other Disclosures

Statutory Deposit - As a condition of licensure with the State of Michigan, BCN is required to maintain a minimum deposit of \$1,000,000 in a segregated account. At December 31, 2007, because of the merger detailed in Note 3B, BCN held \$2,000,000 in statutory deposit accounts. The additional \$1,000,000 deposit was approved for release by OFIS on January 17, 2008. These funds can only be used by BCN at the direction of the Insurance Commissioner of the State of Michigan. The funds are invested in an exempt Money Market Mutual Fund. Interest on these funds accrues to BCN.

Industry Concentration - BCN primarily conducts business within the State of Michigan, and a significant portion of BCN's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from these customers approximate \$1,195,032 and \$0 at December 31, 2007 and 2006, respectively. BCN held no investments in these customers' commercial paper, medium term notes, and other asset backed securities at December 31, 2007 and 2006.

- D. Retrospectively Rated Contracts – NOT APPLICABLE
- E. Business Interruption Insurance Recoveries – NOT APPLICABLE
- F. State Transferable Tax Credits – NOT APPLICABLE
- G. Aggregate deposits of Internal Revenue Code Section 6603 – NOT APPLICABLE
- H. Hybrid Securities – NOT APPLICABLE
- I. Subprime Mortgage Related Risk Exposure – NOT APPLICABLE

21. Events Subsequent

As of December 31, 2007, BCN held \$17,350,000 of Auction Rate Securities ("ARS") in short-term investments. Auction Rate Securities are generally debt instruments that provide liquidity through an auction process that resets the applicable interest rate at pre-determined short-term calendar intervals.

NOTES TO FINANCIAL STATEMENTS

BCN's holdings are comprised entirely of securitized student loans which are 97-98% government guaranteed. BCN invests in ARS as part of its cash management program.

In January 2008, BCN sold \$7,350,000 in ARS at par through the periodic auctions and as of February 21, 2008 held a total of \$10,000,000 in ARS. In February 2008, BCN experienced its first failed auction. A failed auction occurs when there are more sellers than buyers. There have been no defaults on maturities or interest payments on BCN's ARS.

22. Reinsurance

A. Ceded Reinsurance Report

BCN accounts for its transactions with the Stop-Loss Trust as if it were ceded reinsurance in compliance with the NAIC annual statement instructions and SSAP No. 61. Life, Deposit-Type and Accident and Health Reinsurance.

Section 1 – General Interrogatories

1. Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes () No (X)

If yes, give full details.

2. Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business?

Yes() No (X)

If yes, give full details.

Section 2 – Ceded Reinsurance Report – Part A

1. Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes () No (X)

a.) If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate. NOT APPLICABLE

b.) What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for these agreements in this statement? NOT APPLICABLE

2. Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No (X)

If yes, give full details.

Section 3 – Ceded Reinsurance Report – Part B

NOTES TO FINANCIAL STATEMENTS

1. What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of payment or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0

BCN participates in a plan of self-insurance.

2. Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes () No (X)

If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? NOT APPLICABLE

B. Uncollectible Reinsurance

None

C. Commutation of Ceded Reinsurance

None

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. BCN estimates accrued redetermination premium adjustments and return premium adjustments for its group health insurance contracts subject to redetermination based on an examination of contract requirements in relation to the rates charged for similar sized subscriber groups and the status of past applicable audits.

BCN estimates accrued retrospective premium adjustments for its Medicare Advantage health insurance contracts based on the funds received from CMS for Medicare Part D designated as "Direct Subsidies", "Low Income Subsidies (Premium Portion)", "Beneficiary Premium (Standard Coverage Portion)", "Part D Payment Demonstration" and "Risk Corridor Adjustment Payment", as well as any subsequent adjustments made by CMS. BCN started receiving these retrospective premiums with the start-up of the new BCN Advantage effective January 1, 2006.

B. Accrued redetermination premium adjustments and return premium adjustments as well as retrospective premiums are recorded as an adjustment to earned premium.

C. The amount of net premiums written by BCN that are subject to redetermination or retrospective provisions was \$348,518,013 and \$108,588,190 for 2007 and 2006 respectively, representing approximately 16.21% and 5.35% of the total net premiums written for commercial health for 2007 and 2006. No other premiums written by BCN are subject to redetermination or retrospective provisions.

24. Change in Incurred Losses and Loss Adjustment Expenses - Activity in the liabilities for unpaid claims and claims adjustment expenses at December 31, 2007 and 2006, respectively is summarized as follows:

NOTES TO FINANCIAL STATEMENTS

	<u>Annual Statement</u>	
	2007	2006
BALANCE—January 1	\$ 263,044,144	\$ 240,621,210
Incurring related to:		
Current year	1,923,583,038	1,802,981,111
Prior year	<u>(32,261,217)</u>	<u>(23,231,460)</u>
Total incurred	1,891,321,821	1,779,749,651
Paid related to:		
Current year	1,630,868,616	1,545,111,881
Prior year	<u>231,307,729</u>	<u>212,214,836</u>
Total paid	<u>1,862,176,345</u>	<u>1,757,326,717</u>
BALANCE—December 31	<u>\$ 292,189,620</u>	<u>\$ 263,044,144</u>
Balance at December 31:		
Liability for claims unpaid	\$ 281,609,762	\$ 256,295,266
Liability for unpaid claims adjustment expenses	<u>10,579,858</u>	<u>6,748,878</u>
Total	<u>\$ 292,189,620</u>	<u>\$ 263,044,144</u>

Changes in actuarial estimates of claims unpaid reported as “incurred related to prior year” in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns.

25. Inter-company Pooling Arrangements – NOT APPLICABLE

26. Structured Settlements – NOT APPLICABLE

27. Health Care Receivables —

Pharmaceutical Rebate Receivables

Healthcare receivables include pharmacy rebates BCN receives from third party vendors. These rebates are calculated using estimates based on historical rebate trends and membership. Activity for the previous three years is summarized as follows:

NOTES TO FINANCIAL STATEMENTS

Quarter	(1) Estimated Pharmacy Rebates as Reported on Financial Statements	(2) Pharmacy Rebates as Billed or Otherwise Confirmed	(3) Actual Rebates Received Within 90 days of Billing	(4) Actual Rebates Received Within 91 to 180 Days of Billing	(5) Actual Rebates Received More Than 180 Days After Billing
12/31/2007	\$ 3,698,927	\$ -	\$ -	\$ -	\$ -
9/30/2007	3,538,522		133	-	-
6/30/2007	3,838,338	3,743,393	778,478	1,553,011	-
3/31/2007	4,025,229	3,452,321	213,215	3,269,317	151,321
12/31/2006	\$ 4,425,457	\$ 3,612,228	\$ 1,066,968	\$ 2,421,625	\$ 1,101,292
9/30/2006	5,681,735	3,244,103	1,475,913	1,796,223	1,074,472
6/30/2006	4,672,148	4,423,885	1,761,292	1,873,657	1,093,693
3/31/2006	3,904,473	4,009,886	2,138,191	2,150,582	830,267
12/31/2005	\$ 4,441,756	\$ 4,133,328	\$ 2,065,240	\$ 2,320,599	\$ 1,247,239
9/30/2005	3,845,830	3,939,571	1,081,710	2,959,436	1,398,438
6/30/2005	3,450,649	3,625,214	3,097,529	979,607	1,416,739
3/31/2005	3,659,535	3,573,221	1,471,256	1,882,274	1,551,609

Risk Sharing Receivables

BCN has a risk sharing agreement with the University of Michigan Health System (UMHS) whereby UMHS is at full risk for all the medical care provided to BCN members. BCN estimates the risk sharing receivable using actuarial estimates based on historical claims experience modified for current trends and benefits as well as using actual payments to third party providers whose reimbursement is proved for in the UMHS risk sharing agreement. At December 31, 2007 BCN had a risk sharing receivable of \$10,071,237. At December 31, 2006 BCN had a risk sharing receivable of \$4,449,063. At December 31, 2005 BCN had a risk sharing receivable of \$4,414,053. Years ending December 31, 2007, 2006 and 2005 were not offset by any risk sharing payables.

Calendar Year	Evaluation Period Year Ending	Risk Sharing Receivable as Estimated and Reported in the Prior Year	Risk Sharing Receivable as Estimated and Reported in the Current Year	Risk Sharing Receivable Invoiced	Risk Sharing Receivable Not Invoiced	Actual Risk Sharing Amounts Collected in Year Invoiced	Actual Risk Sharing Amounts Collected First Year Subsequent	Actual Risk Sharing Amounts Collected Second Year Subsequent	Actual Risk Sharing Amounts Collected - All Other
2007	2007	\$ 4,449,063	\$ -	\$ 6,467,742	\$ -	\$ -	\$ -	\$ -	\$ -
	2008	XXX	\$ 10,071,237	XXX	\$ 10,071,237	XXX	XXX		
2006	2006	\$ 4,414,053	\$ -	\$ 4,481,051	\$ -	\$ -	\$4,357,637	\$ 123,414	\$ -
	2007	XXX	\$ 4,449,063	XXX	\$ 4,449,063	XXX	XXX	XXX	XXX
2005	2005	\$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	2006	XXX	\$ 4,414,053	XXX	\$ 4,414,053	XXX	XXX	XXX	XXX

28. Participating Policies – NOT APPLICABLE

29. Premium Deficiency Reserves –

BCN was not required to record a premium deficiency reserve in 2007 or 2006. If the need to record such a reserve arises, BCN would use anticipated investment income as a factor in the premium deficiency calculation.

NOTES TO FINANCIAL STATEMENTS

30. Anticipated Salvage and Subrogation – NOT APPLICABLE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....	13,042,505	1.8	13,042,505	1.8
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....		0.0		0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....	73,301,338	9.9	73,301,338	10.0
1.513 All other.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....	2,408,535	0.3	2,408,535	0.3
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....	56,084,592	7.6	56,084,592	7.6
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....	1,515,559	0.2	1,515,559	0.2
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated.....	6,854,555	0.9	2,979,805	0.4
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash, cash equivalents and short-term investments.....	515,981,372	69.7	515,981,372	70.1
9. Other invested assets.....	70,835,625	9.6	70,835,625	9.6
10. Total invested assets.....	740,024,081	100.0	736,149,331	100.0

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [X] No []

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [X] No [] N/A []

1.3

State regulating?

Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [] No [X]

2.2

If yes, date of change:

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2003

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2003

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/30/2005

3.4

By what department or departments?

Dept of Labor & Economic Growth - Office of Financial and Insurance Services

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under a common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes [] No [X]

4.12

renewals?

Yes [] No [X]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes [X] No []

4.22

renewals?

Yes [X] No []

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [X] No []

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Co. Code	3 State of Domicile
M-CARE	94559	MI

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [] No [X]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [] No [X]

7.2

If yes,

7.21

State the percentage of foreign control.

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1 Nationality	2 Type of Entity

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [] No [X]

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]

8.4

If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Deloitte & Touche LLP. 600 Renaissance Center Suite 900 Detroit, MI 48243-1895

10.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

David Robert Nelson, FSA MAAA Chief Actuarial Officer, Blue Care Network of Michigan 20500 Civic Center Drive MC C465 Southfield, MI 48076

11.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes [] No [X]

11.11

Name of real estate holding company

11.12

Number of parcels involved

.....

11.13

Total book/adjusted carrying value

.....

11.2

If yes, provide explanation.

12.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

12.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [] No []

12.3

Have there been any changes made to any of the trust indentures during the year?

Yes [] No []

12.4

If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes [] No [] N/A []

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

13.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

a.

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b.

Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c.

Compliance with applicable governmental laws, rules and regulations;

d.

The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e.

Accountability for adherence to the code.

Yes [X]

No []

13.11

If the response to 13.1 is No, please explain:

13.2

Has the code of ethics for senior managers been amended?

Yes [X]

No []

13.21

If the response to 13.2 is Yes, provide information related to amendment(s).

The corporate ethics and compliance program was amended for the following: Clarifies that the Compliance Committee meets at least quarterly, requires that the director of corporate ethics & compliance will report suspected violations of state or federal law to the VP of HR & Corporate Administration.

13.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes []

No [X]

13.31

If the response to 13.3 is yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [X]

No []

15.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [X]

No []

16.

Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [X]

No []

FINANCIAL

17.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes []

No [X]

18.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

18.11

To directors or other officers

\$.....0

18.12

To stockholders not officers

\$.....0

18.13

Trustees, supreme or grand (Fraternal only)

\$.....0

18.2

Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

18.21

To directors or other officers

\$.....0

18.22

To stockholders not officers

\$.....0

18.23

Trustees, supreme or grand (Fraternal only)

\$.....0

19.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes []

No [X]

19.2

If yes, state the amount thereof at December 31 of the current year:

19.21

Rented from others

.....

19.22

Borrowed from others

.....

19.23

Leased from others

.....

19.24

Other

.....

20.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes []

No [X]

20.2

If answer is yes:

20.21

Amount paid as losses or risk adjustment

.....

20.22

Amount paid as expenses

.....

20.23

Other amounts paid

.....

21.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [X]

No []

21.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....4,923,447

INVESTMENT

22.1

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date?

Yes []

No [X]

22.2

If no, give full and complete information relating thereto.

23.1

Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contact that is currently in force? (Exclude securities subject to Interrogatory 19.1)

Yes [X]

No []

23.2

If yes, state the amount thereof at December 31 of the current year:

23.21

Loaned to others

\$.....174,519,721

23.22

Subject to repurchase agreements

\$.....0

23.23

Subject to reverse repurchase agreements

\$.....0

23.24

Subject to dollar repurchase agreements

\$.....0

23.25

Subject to reverse dollar repurchase agreements

\$.....0

23.26

Pledged as collateral

\$.....0

23.27

Placed under option agreements

\$.....0

23.28

Letter stock or securities restricted as to sale

\$.....0

23.29

On deposit with state or other regulatory body

\$.....2,000,000

23.291

Other

\$.....70,835,625

23.3

For category (23.28) provide the following:

1	2	3
Nature of Restriction	Description	Amount

24.1

Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes []

No [X]

24.2

If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes []

No []

N/A []

If no, attach a description with this statement.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No [X]

25.2 If yes, state the amount thereof at December 31 of the current year:

26. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, G - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

26.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
State Street Bank	801 Pennsylvania, Kansas City, MO 64105
Fidelity Investments Institutional Operations Company	100 Magellan Way KW2B Covington, KY 41015
Comerica Bank	P.O. Box 75000 Detroit Mi 48275-3462

26.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year? Yes [] No [X]

26.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

26.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
	Blue Cross Blue Shield of Michigan	600 E. Lafayette Blvd. Detroit, MI 48226

27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])? Yes [] No [X]

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj.Carrying Value
27.2999. TOTAL		0

27.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds.....	.....675,860,358	.....677,946,697	.....2,086,339
28.2 Preferred stocks.....			.....0
28.3 Totals.....	.....675,860,358	.....677,946,697	.....2,086,339

28.4 Describe the sources or methods utilized in determining the fair values:
State Street Bank is the source for all fair values.

29.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [X] No []

29.2 If no, list exceptions:

OTHER

30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$......644,622

30.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	320,181
Amercia's Health Insurance Plans	257,188

31.1 Amount of payments for legal expenses, if any? \$......39,194

31.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Dickinson Wright PLLC	38,025

32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$......0

32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

Blue Care Network of Michigan
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [☐]

No [☒]

1.2

If yes, indicate premium earned on U.S. business only

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

1.62

Total incurred claims

1.63

Number of covered lives

All years prior to most current three years:

1.64

Total premium earned

1.65

Total incurred claims

1.66

Number of covered lives

1.7

Group policies:

Most current three years:

1.71

Total premium earned

1.72

Total incurred claims

1.73

Number of covered lives

All years prior to most current three years:

1.74

Total premium earned

1.75

Total incurred claims

1.76

Number of covered lives

2.

Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	.....2,150,301,539	.....1,563,699,858
2.2 Premium Denominator.....	.....2,150,301,539	.....1,563,699,858
2.3 Premium Ratio (2.1/2.2).....	.....100.0	.....100.0
2.4 Reserve Numerator.....	.....359,917,308	.....276,364,685
2.5 Reserve Denominator.....	.....359,917,309	.....276,364,685
2.6 Reserve Ratio (2.4/2.5).....	.....100.0	.....100.0

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes [☐]

No [☒]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [☒]

No [☐]

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [☐]

No [☐]

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [☐]

No [☒]

5.2

If no, explain:

Blue Care Network of Michigan participates in the BCN Stop-Loss & Casualty Self-Insurance Trust. Expiration date of 12/31/2007.

Unlimited coverage with a deductible of \$150,000. BCN accounts for the activity with the Trust as if it were re-insurance.

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....150,000

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....150,000

5.34

Dental

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Hold Harmless provisions are included in contracts with providers.

In addition, a State mandated cash reserve is maintained, along with Stop-Loss Self-Insurance coverage which includes an insolvency clause.

7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [☒]

No [☐]

7.2

If no, give details:

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....13,495

8.2

Number of providers at end of reporting year

.....14,142

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [☐]

No [☒]

9.2

If yes, direct premium earned:

9.21

Business with the rate guarantees between 15-36 months

9.22

Business with rate guarantees over 36 months

10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [☒]

No [☐]

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....72,590,359

10.22

Amount actually paid for year bonuses

\$.....49,307,284

10.23

Maximum amount payable withholds

\$.....10,619,749

10.24

Amount actually paid for year withholds

\$.....7,939,179

Blue Care Network of Michigan

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes [☐]

No [☒]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [☒]

No [☐]

11.3 If yes, show the name of the state requiring such net worth.

Michigan

11.4 If yes, show the amount required.

\$.....86,506,608

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes [☐]

No [☒]

11.6 If the amount is calculated, show the calculation:

4% of subscription revenue: \$2,162,665,199 x 4% = \$86,506,608

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
ALCONA
ALLEGAN
ALPENA
ANTRIM
ARENAC
BARRY
BAY
BENZIE
BERRIEN
CALHOUN
CASS
CHARLEVOIX
CHEBOYGAN
CLARE
CLINTON
CRAWFORD
EATON
EMMET
GENESEE
GLADWIN
GRAND TRAVERSE
GRATIOT
HILLSDALE
HURON
INGHAM
IONIA
IOSCO
ISABELLA
JACKSON
KALAMAZOO
KALKASKA
KENT
LAPEER
LEELANAU
LIVINGSTON
MACKINAC
MACOMB
MANISTEE
MIDLAND
MECOSTA
MONROE
MONTCALM
MONTMORENCY
MUSKEGON
NEWAYGO
OAKLAND
OCEANA
OGEMAW
OSCODA
OTSEGO
OTTAWA
PRESQUE ISLE
ROSCOMMON
SAGINAW
SHIAWASSEE
ST. CLAIR
ST. JOSEPH
TUSCOLA
VAN BUREN
WASHTENAW
WAYNE
WEXFORD

FIVE-YEAR HISTORICAL DATA

	1 2007	2 2006	3 2005	4 2004	5 2003
Balance Sheet Items (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26).....	785,302,394	675,400,498	697,705,479	618,295,943	554,851,331
2. Total liabilities (Page 3, Line 22).....	541,192,674	480,664,858	384,682,565	399,817,739	413,344,160
3. Statutory surplus.....	86,506,608	81,581,202	57,673,083	56,141,701	54,380,471
4. Total capital and surplus (Page 3, Line 31).....	244,109,720	194,735,640	313,022,914	218,478,204	141,507,171
Income Statement Items (Page 4)					
5. Total revenues (Line 8).....	2,151,856,958	2,034,388,600	1,439,429,414	1,395,437,885	1,352,667,185
6. Total medical and hospital expenses (Line 18).....	1,860,555,662	1,752,212,012	1,154,101,893	1,115,660,742	1,098,493,074
7. Claims adjustment expenses (Line 20).....	88,186,400	78,326,005	70,738,036	78,409,518	67,811,676
8. Total administrative expenses (Line 21).....	186,850,646	196,840,660	152,537,245	128,764,350	138,698,989
9. Net underwriting gain (loss) (Line 24).....	16,264,250	7,009,923	62,052,240	72,603,275	47,663,446
10. Net investment gain (loss) (Line 27).....	33,670,167	74,212,796	16,488,247	8,541,784	5,743,105
11. Total other income (Lines 28 plus 29).....	(56,102)	(149,005)	(92,237)		
12. Net income or (loss) (Line 32).....	49,846,840	81,042,173	78,396,434	80,999,195	53,130,301
Cash Flow (Page 6)					
13. Net cash from operations (Line 11).....	99,078,239	94,496,060	66,542,404	113,998,898	111,010,121
Risk-Based Capital Analysis					
14. Total adjusted capital.....	244,109,720	194,735,640	313,022,914	218,478,204	141,507,171
15. Authorized control level risk-based capital.....	64,828,930	60,723,694	41,176,565	39,394,003	36,585,360
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7).....	626,403	646,699	452,163	460,516	478,043
17. Total member months (Column 6, Line 7).....	7,564,671	7,625,979	5,398,464	5,509,462	5,898,716
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Line 18 plus Line 19)....	86.4	86.0	80.1	79.7	80.8
20. Cost containment expenses.....	2.8	2.7	3.6	4.0	XXX
21. Other claims adjustment expenses.....	1.3	1.2	1.3	5.6	
22. Total underwriting deductions (Line 23).....	99.2	99.5	95.6	94.6	96.0
23. Total underwriting gain (loss) (Line 24).....	0.8	0.3	4.3	5.2	3.5
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13 Col. 5).....	279,729,416	255,602,392	206,932,230	217,419,418	195,026,594
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	309,836,682	284,284,770	250,114,424	246,898,321	223,296,904
Investments in Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 53, Col. 1).....	6,854,565	289,294			
29. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 7).....					
30. Affiliated mortgage loans on real estate.....					
31. All other affiliated.....	70,835,625	67,828,768	56,008,811	52,835,985	50,601,683
32. Total of above Lines 26 to 31.....	77,690,190	68,118,062	56,008,811	52,835,985	50,601,683

2006 has been restated due to the merger [except for Line 15], but 2005, 2004, and 2003 have not been restated.

SCHEDULE D - SUMMARY BY COUNTRY
Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1. United States.....	.....13,042,505	.....13,583,401	.....13,041,347	.....13,000,000
	2. Canada.....	.....	.....	.....	.....
	3. Other Countries.....	.....	.....	.....	.....
	4. Totals.....	.....13,042,505	.....13,583,401	.....13,041,347	.....13,000,000
States, Territories and Possessions (Direct and guaranteed)	5. United States.....	.....	.....	.....	.....
	6. Canada.....	.....	.....	.....	.....
	7. Other Countries.....	.....	.....	.....	.....
	8. Totals.....	.....0	.....0	.....0	.....0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States.....	.....	.....	.....	.....
	10. Canada.....	.....	.....	.....	.....
	11. Other Countries.....	.....	.....	.....	.....
	12. Totals.....	.....0	.....0	.....0	.....0
Special Revenue and Special Assessment Obligations and all Non-guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	13. United States.....	.....73,301,338	.....74,368,054	.....73,284,952	.....74,539,848
	14. Canada.....	.....	.....	.....	.....
	15. Other Countries.....	.....	.....	.....	.....
	16. Totals.....	.....73,301,338	.....74,368,054	.....73,284,952	.....74,539,848
Public Utilities (Unaffiliated)	17. United States.....	.....	.....	.....	.....
	18. Canada.....	.....	.....	.....	.....
	19. Other Countries.....	.....	.....	.....	.....
	20. Totals.....	.....0	.....0	.....0	.....0
Industrial and Miscellaneous and Credit Tenant Loans (Unaffiliated)	21. United States.....	.....58,493,127	.....58,566,827	.....58,428,777	.....57,812,308
	22. Canada.....	.....	.....	.....	.....
	23. Other Countries.....	.....	.....	.....	.....
	24. Totals.....	.....58,493,127	.....58,566,827	.....58,428,777	.....57,812,308
Parent, Subsidiaries and Affiliates	25. Totals.....	.....	.....	.....	.....
	26. Total Bonds.....	.....144,836,970	.....146,518,282	.....144,755,076	.....145,352,156
PREFERRED STOCKS Public Utilities (Unaffiliated)	27. United States.....	.....	.....	.....	.....
	28. Canada.....	.....	.....	.....	.....
	29. Other Countries.....	.....	.....	.....	.....
	30. Totals.....	.....0	.....0	.....0	.....
Banks, Trust and Insurance Companies (Unaffiliated)	31. United States.....	.....	.....	.....	.....
	32. Canada.....	.....	.....	.....	.....
	33. Other Countries.....	.....	.....	.....	.....
	34. Totals.....	.....0	.....0	.....0	.....
Industrial and Miscellaneous (Unaffiliated)	35. United States.....	.....	.....	.....	.....
	36. Canada.....	.....	.....	.....	.....
	37. Other Countries.....	.....	.....	.....	.....
	38. Totals.....	.....0	.....0	.....0	.....
Parent, Subsidiaries and Affiliates	39. Totals.....	.....	.....	.....	.....
	40. Total Preferred Stocks.....	.....0	.....0	.....0	.....
COMMON STOCKS Public Utilities (Unaffiliated)	41. United States.....	.....	.....	.....	.....
	42. Canada.....	.....	.....	.....	.....
	43. Other Countries.....	.....	.....	.....	.....
	44. Totals.....	.....0	.....0	.....0	.....
Banks, Trust and Insurance Companies (Unaffiliated)	45. United States.....	.....	.....	.....	.....
	46. Canada.....	.....	.....	.....	.....
	47. Other Countries.....	.....	.....	.....	.....
	48. Totals.....	.....0	.....0	.....0	.....
Industrial and Miscellaneous (Unaffiliated)	49. United States.....	.....1,515,559	.....1,515,559	.....1,487,923	.....
	50. Canada.....	.....	.....	.....	.....
	51. Other Countries.....	.....	.....	.....	.....
	52. Totals.....	.....1,515,559	.....1,515,559	.....1,487,923	.....
Parent, Subsidiaries and Affiliates	53. Totals.....	.....6,854,565	.....6,854,565	.....8,091,077	.....
	54. Total Common Stocks.....	.....8,370,124	.....8,370,124	.....9,579,000	.....
	55. Total Stocks.....	.....8,370,124	.....8,370,124	.....9,579,000	.....
	56. Total Bonds and Stocks....	.....153,207,094	.....154,888,406	.....154,334,076	.....

SCHEDULE D - VERIFICATION BETWEEN YEARS
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	46,507,647	7. Amortization of premium.....	77,604
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	338,667,108	8. Foreign exchange adjustment:	
3. Accrual of discount.....	136,242	8.1 Column 15, Part 1.....	_____
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2, Section 1.....	_____
4.1 Columns 12 - 14, Part 1.....	_____	8.3 Column 16, Part 2, Section 2.....	_____
4.2 Columns 15 - 17, Part 2, Section 1.....	_____	8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Section 2.....	(1,659,712)	9. Book/adjusted carrying value at end of current period.....	153,207,094
4.4 Columns 11 - 13, Part 4.....	21,240	10. Total valuation allowance.....	_____
5. Total gain (loss), Column 19, Part 4.....	463,912	11. Subtotal (Lines 9 plus 10).....	153,207,094
6. Deduct consideration for bonds and stocks disposed of, Column 7, Part 4....	230,851,739	12. Total nonadmitted amounts.....	3,874,760
		13. Statement value of bonds and stocks, current year.....	149,332,334

Prior year amounts have been change to reflect merged balances.

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	Direct Business Only							
			2	3	4	5	6	7	8	9
State, Etc.		Is Insurer Licensed? (YES or NO)	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit- Type Contracts
1.	Alabama.....	AL ..NO.....							0	
2.	Alaska.....	AK ..NO.....							0	
3.	Arizona.....	AZ ..NO.....							0	
4.	Arkansas.....	AR ..NO.....							0	
5.	California.....	CA ..NO.....							0	
6.	Colorado.....	CO ..NO.....							0	
7.	Connecticut.....	CT ..NO.....							0	
8.	Delaware.....	DE ..NO.....							0	
9.	District of Columbia.....	DC ..NO.....							0	
10.	Florida.....	FL ..NO.....							0	
11.	Georgia.....	GA ..NO.....							0	
12.	Hawaii.....	HI ..NO.....							0	
13.	Idaho.....	ID ..NO.....							0	
14.	Illinois.....	IL ..NO.....							0	
15.	Indiana.....	IN ..NO.....							0	
16.	Iowa.....	IA ..NO.....							0	
17.	Kansas.....	KS ..NO.....							0	
18.	Kentucky.....	KY ..NO.....							0	
19.	Louisiana.....	LA ..NO.....							0	
20.	Maine.....	ME ..NO.....							0	
21.	Maryland.....	MD ..NO.....							0	
22.	Massachusetts.....	MA ..NO.....							0	
23.	Michigan.....	MI ..YES.....	1,990,297,792	..91,700,331		71,461,045			..2,153,459,168	
24.	Minnesota.....	MN ..NO.....							0	
25.	Mississippi.....	MS ..NO.....							0	
26.	Missouri.....	MO ..NO.....							0	
27.	Montana.....	MT ..NO.....							0	
28.	Nebraska.....	NE ..NO.....							0	
29.	Nevada.....	NV ..NO.....							0	
30.	New Hampshire.....	NH ..NO.....							0	
31.	New Jersey.....	NJ ..NO.....							0	
32.	New Mexico.....	NM ..NO.....							0	
33.	New York.....	NY ..NO.....							0	
34.	North Carolina.....	NC ..NO.....							0	
35.	North Dakota.....	ND ..NO.....							0	
36.	Ohio.....	OH ..NO.....							0	
37.	Oklahoma.....	OK ..NO.....							0	
38.	Oregon.....	OR ..NO.....							0	
39.	Pennsylvania.....	PA ..NO.....							0	
40.	Rhode Island.....	RI ..NO.....							0	
41.	South Carolina.....	SC ..NO.....							0	
42.	South Dakota.....	SD ..NO.....							0	
43.	Tennessee.....	TN ..NO.....							0	
44.	Texas.....	TX ..NO.....							0	
45.	Utah.....	UT ..NO.....							0	
46.	Vermont.....	VT ..NO.....							0	
47.	Virginia.....	VA ..NO.....							0	
48.	Washington.....	WA ..NO.....							0	
49.	West Virginia.....	WV ..NO.....							0	
50.	Wisconsin.....	WI ..NO.....							0	
51.	Wyoming.....	WY ..NO.....							0	
52.	American Samoa.....	AS ..NO.....							0	
53.	Guam.....	GU ..NO.....							0	
54.	Puerto Rico.....	PR ..NO.....							0	
55.	U.S. Virgin Islands.....	VI ..NO.....							0	
56.	Northern Mariana Islands.....	MP ..NO.....							0	
57.	Canada.....	CN ..NO.....							0	
58.	Aggregate Other alien.....	OT ...XXX.....	0	..0	..0	..0	..0	..0	..0	..0
59.	Subtotal.....	XXX.....	1,990,297,792	..91,700,331	..0	71,461,045	..0	..0	..2,153,459,168	..0
60.	Reporting entity contributions for Employee Benefit Plans.....	XXX.....	9,206,031						9,206,031	
61.	Total (Direct Business).....	(a).....1	1,999,503,823	..91,700,331	..0	71,461,045	..0	..0	..2,162,665,199	..0

DETAILS OF WRITE-INS

5801.									0	
5802.									0	
5803.									0	
5898.	Summary of remaining write-ins for line 58.....		0	..0	..0	..0	..0	..0	..0	..0
5899.	Total (Lines 5801 thru 5803 + 5898) (Line 58 above)...		0	..0	..0	..0	..0	..0	..0	..0

Explanation of basis of allocation by states, premiums by state, etc.

(a) Insert the number of yes responses except for Canada and Other Alien.

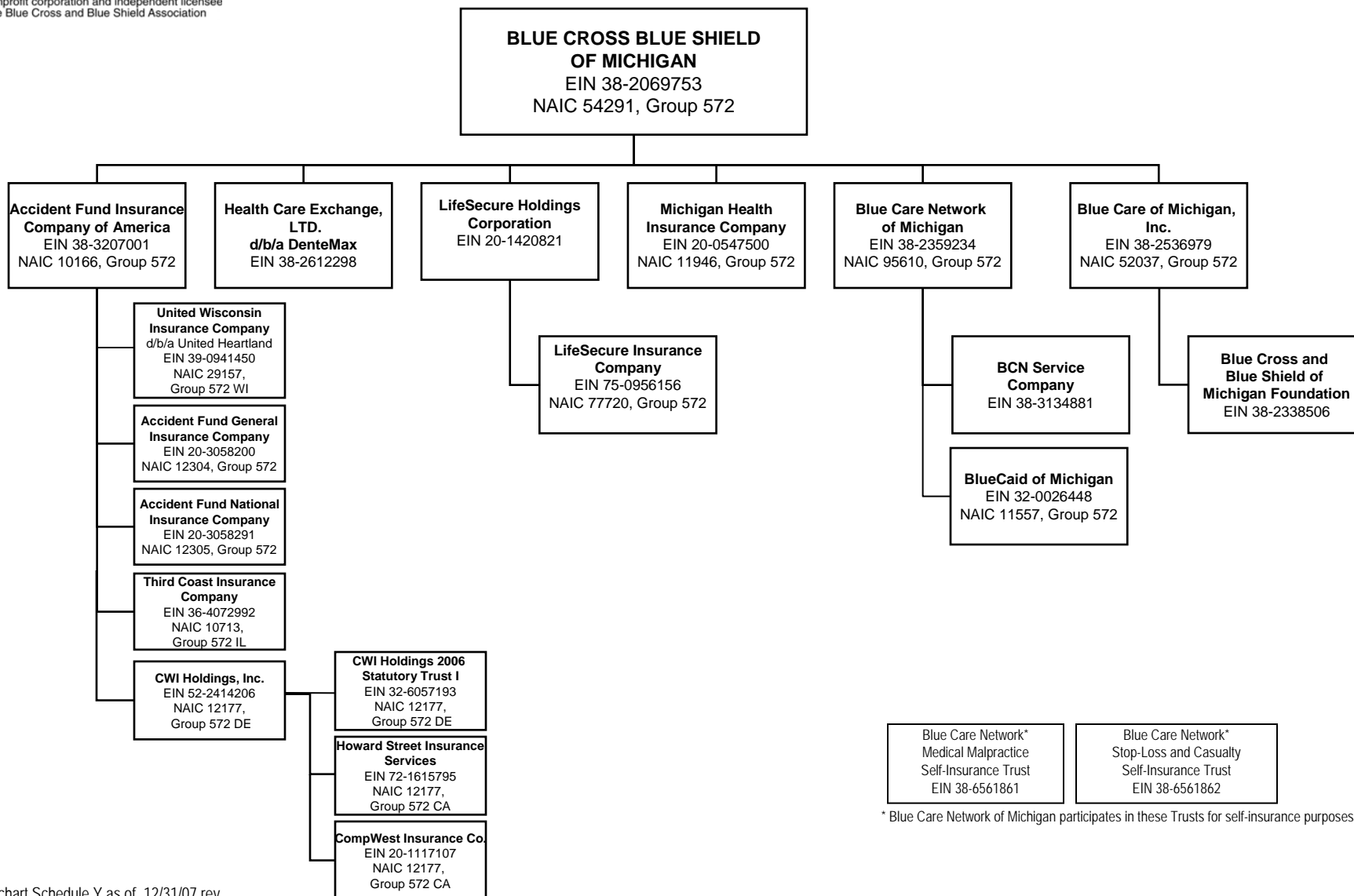
SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART

SUBSIDIARY & AFFILIATE ORGANIZATION CHART



A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

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* Blue Care Network of Michigan participates in these Trusts for self-insurance purposes.

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(http://www.naic.org/committees_e_app_blanks.htm)
HEALTH ANNUAL STATEMENT BLANK

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